Austria ... Sch 16	Indonesia .. Rp 2500	Portugal ... Esc 65
Bahrain ... Din 0.650	Italy ...... L 1100	S. Arabia .. Rls 6.00
Belgium ... BFr 35	Japan Y550	Singapore . S$ 3.10
Canada ... C$2.50	Jordan ... Fils 500	Spain ..... Pts 95
Cyprus ... Mils 600	Kuwait ... Fils 500	Sri Lanka ... Rup 30
Denmark .. Dkr 7.00	Lebanon .. £L 6.00	Sweden .. Skr 6.50
Egypt .... E£1.00	Luxembourg . LFr 35	Switzerland . SwFr 2
Finland .. Fmk 6.50	Malaysia .. Rm 4.25	Taiwan ... NT $85
France ... FFr 5.50	Mexico .. Pes. 300	Tunisia .. Din 0.600
Germany . DM 7.00	Morocco .. Dh 6.00	Turkey .... L 180
Greece ..... Dr 60	Netherlands . Fl 2.25	U.A.E. ... Dh 6.50
Hong Kong . HK$ 12	Norway .. Nkr. 6.00	U.S.A. $1.50
India .... Rup. 15	Philippines . Pes 20	

Ø

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,117 — Monday September 12 1983

Computers: the big battalions take over, Page 16

NEWS SUMMARY

GENERAL

Druze step up Beirut attacks

Druze militia launched their heaviest attacks yet on the outer defences of Beirut and mopped up the last Christian stronghold to the south of the Lebanese capital.

British Buccaneer and American F-14 aircraft overflew Beirut as a warning against further attacks on the multi-national peacekeeping force by the Druze or their allies. Page 18

The Lebanese army, which has claimed heavy foreign involvement in the fighting outside Beirut, put on show the bodies of three men, said to be Palestinian, or Syrian, who were killed in an overnight attack on its positions.

In Israel, Defence Minister Moshe Arens said his country's forces would not intervene in the fighting and would not return to the Chouf mountains. Page 2

'Crash body' report

The legless body of a woman believed to have been a passenger on the Korean jet shot down by a Soviet fighter, was washed ashore on Japan's northern island of Hokkaido.

The U.S. admitted yesterday that the latest deciphering of tapes recording Soviet pilots' conversation indicated that warning shots may have been fired, but that the Korean pilot was unaware he was off course. Page 18. Issue dominates EEC talks, Page 2

Madrid demonstration

Tens of thousands of Spaniards demonstrated in Madrid against the Pinochet regime in Chile, which has been in power ten years after a military coup. In Chile's capital Santiago there were further disturbances. Page 2

Arrests in Egypt

Eight people, including some Palestinians, have been arrested in Egypt on suspicion of planning *assassinations and sabotage.*

Lahore women held

At least a dozen women politicians and activists were arrested in Lahore under three-month detention orders to prevent their plans to demonstrate against the Zia Government, which has promised "to deal with mischief-makers with an iron hand." Page 3

Guatemala kidnap

The sister of Guatemalan leader Oscar Mejia Victores, Celeste Aida, aged 54, was kidnapped by four gunmen outside the Guatemala City hospital where she works.

Pope's warning

Pope John Paul warned a congregation of 270,000 at an open-air mass beside the river Danube in Vienna that abuse of freedom was endangering marriage and the family.

Philippines protest

Philippines opposition groups have declared today National Immobilisation Day in protest against the *killing of politician Benigno Aquino.* Page 3

Crime drops in U.S.

Serious crime dropped by 3 per cent last year, the first significant fall since 1977, according to official figures.

Well-armed fan

Chad's top sports official has rebuked the army for failing to take action against a war-crippled football fan who turns up for matches armed with a Kalashnikov rifle, a pistol, and several grenades.

Briefly . . .

Gwalior, India: More than 50 died when a monsoon-swollen river swept away a bus.

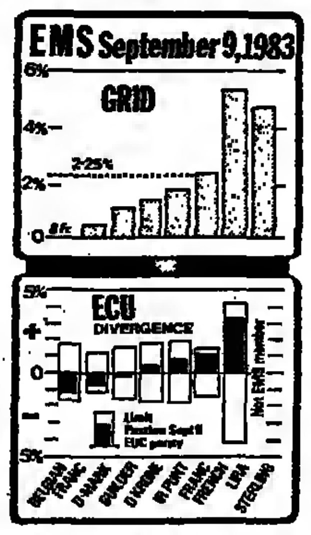
Motor racing: Nelson Piquet (Brazil, Brabham) won the Italian grand prix at Monza.

BUSINESS

American debtor states ease line

● **ORGANISATION** of American States conference in Caracas ruled out joint action against creditors, and decided to set up a commission to study ways of easing the burden of Latin America's $300bn debts. Page 3. Bolivia plans to pay $30bn late interest ahead of debt rescheduling talks in New York next month.

● **THE FRENCH** franc remained the strongest currency within the European Monetary System last week. It remained steady against *the D-Mark, despite a half point in*crease in the West German Lombard rate to 5½ per cent and was underpinned by a steady improvement in France's trade balance.



Trading remained subdued for much of the week as the market awaited Friday's U.S. money supply figures.

Current dollar strength has succeeded in restraining the D-Mark and keeping pressure on the weaker currencies within acceptable levels. The Belgian franc was again the weakest member, attracting limited central bank intervention though remaining within its divergence limit.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

● **ZAIRE** has devalued its currency 480 per cent from 6.06 zaires to the dollar to 29.9. This is in line with IMF recommendations for reviving its economy. Page 3

● **SOVIET UNION** has suggested to India building a natural gas pipeline, similar to the one being built to western Europe. Page 5

● **JAPAN** *is discouraging its life in*surance companies from too much investment in overseas bonds and securities. Page 20

● **PAKISTAN** is planning to ban foreign companies from reinsurance business, which amounts to about Rs 1bn ($75m) a year in the country.

● **GENERAL MOTORS** of the U.S. is seeking Algeria's agreement to set up a joint venture plant there to assemble 100,000 vehicles a year by 1986–87. Page 5

● **AKER**, the Norwegian ship and platform building group, has reached agreement with Norway's ship mortgage institute, on relieving it of most of the debt burden it has carried for nearly a decade. Page 20

Publisher's notice

The Financial Times apologises to readers who could not obtain their copy of the paper on Friday. This was a result of industrial action in London by some members of the National Graphical Association *which delayed the start of production.*

IMF report sees foundations of world recovery

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

The International Monetary Fund strikes a note of restrained optimism in its latest assessment of the prospects for world economic recovery and greater *international financial stability.*

It warns, however, that persisting problems of international inflation, protectionism and foreign debts, particularly those of developing countries, continue to need urgent attention.

The Fund's annual report, published today, suggests that a serious world economic and financial upheaval was only narrowly averted last year by concerted action on behalf of governments, banks and international institutions – and particularly the Fund itself.

While the Fund stresses that the world economy is by no means yet out of the wood, it does not foresee a major new crisis, provided governments, learn the economic and monetary lessons of the past two years and continue to strengthen international co-operation.

"Improved confidence resulting from the better outlook for inflation appears to have set the stage for an upswing in production and trade," the Fund says in its report, issued in advance of its annual meeting in Washington later this month.

Signs of such an upswing were already evident in a number of industrial countries, especially the U.S., during the first half of 1983, the report says. "The task now confronting national authorities and the international community is to build a sustainable recovery on the foundation that is emerging."

The Fund said it saw "several developments of a distinctly encouraging character." These included reduced inflation in the industrial countries – where average consumer price increases had steadily fallen from a peak of 13 per cent at the beginning of 1980 to an annual rate of 5 per cent in early 1983 – substantial declines in interest rates, and the fall in the oil price.

On the negative side, it noted that the total output of the industrial countries fell last year for the first time since 1975, that unemployment rose to post-war highs, and that world trade fell by 2.5 per cent in volume.

Economic prospects in all the developing countries "now depend crucially" on the progress of recovery in the industrial countries, the Fund said. While the need for an early upturn was pressing, "there is also a vital need that renewed growth be non-inflationary and sustainable," it added.

It urged curbs on monetary expansion "to rates consistent with consolidating the recent trend towards lower inflation," and added that "it is vital to bring fiscal situations in the larger industrial countries, particularly the U.S., into better balance."

In a clear expression of concern about the continuing record $200bn – a year U.S. budget deficits, the Fund warned that "it will be essential that government demands for credit be prevented from competing unduly with rising private needs for credit and thus forcing up interest rates."

*The Fund called for close interna*tional co-operation to reduce exchange rate volatility. It suggested that "monetary management techniques using the exchange rate as an indicator may be a more promising approach to greater exchange rate stability" than intervention on *the foreign exchange markets,* which, it noted, was controversial.

The Fund said that it was "difficult to explain" the recent strength of the dollar, but suggested that "one factor" may have been "emerging expectations of a large and persistent U.S. budget deficit" leading to higher U.S. rate assumptions.

It was "especially important at

Continued on Page 18

Brazil in new bid to reach accord with Fund

By Andrew Whitley in Rio de Janeiro

BRAZILIAN officials today open two days of high level talks in Washington and New York, overshadowed by the country's continuing reluctance to sign its revised Letter of Intent to the International Monetary Fund (IMF) and by mounting arrears in payments due to creditor banks.

Sr Ernane Galveas, the Finance Minister, and Sr Affonso Celso Pastore, the newly-appointed central bank governor, are expected to discuss the hold up in Brazil's latest attempt at an agreement with the Fund with M Jacques de Larosiere, its managing director.

Other meetings scheduled for today in Washington are with Mr Paul Volcker, chairman of the Federal Reserve Board, and with Mr Donald Regan, the U.S. Treasury Secretary. The U.S. is likely to be sounded out, once again, about the possibility of bridging finance to help Brazil overcome an expected $3.5bn gap remaining in its balance of payments calculations for this year.

Tomorrow's meeting in New York with members of the Commercial Bank Advisory Committee for Brazil is likely to be limited to another round of re-calculating the world's largest debtors external projections for the next 16 months, rather than serious negotiations on new financing.

As one Western participant in the meeting put it: "If by Tuesday Brazil has not signed with the Fund there will be precious little to talk about in New York."

In the high stakes poker game being played out between Brasilia, Washington and New York, the Brazilian Government is continuing to put pressure on the IMF to authorise the banks to release blocked loans, while the banks are refusing to budge until Brazil both signs with the IMF and agrees to repay $1.1bn in outstanding emergency loans made last year.

Meanwhile, Brazil's central bank has halted interest payments for the past six weeks on all foreign loans raised in the past to its principal bank-to-bank borrowing channel, known as Resolution 61, leading Western bankers in Brazil have confirmed.

Continued on Page 18

U.S. BANKS BID FOR SHARE BUSINESS

London stock market faces major changes

BY RICHARD LAMBERT IN LONDON

BRITAIN'S financial institutions are facing the prospect of major changes in the structure of the London Stock Exchange.

In the next week or so the Exchange will circulate its members with details of proposed changes in its constitution which, if approved next month, will set up an independent appeals tribunal and allow outsiders to join the Stock Exchange Council.

These changes come at a time when there is a widespread view in the City that the whole British securities industry is approaching a crucial turning point and a range of different interests is preparing to do battle.

U.S. investment banks are rumoured to be bidding for key members of London firms with more or less open cheque books and there is speculation that merchant banks and even clearing banks are considering links with stock exchange *firms over the longer term.*

It seems almost certain that members will approve the constitutional changes. If they do the Government will seek to exclude the Stock Exchange from the operations of the Restrictive Trade Practices Act.

But there is still considerable hostility to the proposals. According to the senior partner of one major firm, "if the vote were taken today more than half the members in my firm would probably vote against."

Some members are angry that they were not consulted in advance about the negotiations which led the Government to intervene this summer in restrictive trade proceedings against the Stock Exchange. Others are convinced that the Stock Exchange's major concession in those talks – an undertaking to abandon minimum commissions by the end of 1986 – will bring an end to the present system of dealing in the market.

Sir Nicholas Goodison, the Stock Exchange chairman, has said that "there is strong evidence and belief that without minimum commissions it would not be possible to maintain separation of agent and principal" in London. Some senior brokers believe the present system of single capacity – which separates brokers as agents, from jobbers as principals, is doomed. Already there are signs that the rules for dealing in international securities which were established after the abolition of UK exchange controls in 1979, are likely to be changed.

A key question is the likely attitude of the Bank of England. It has a double interest both in its role as a manager of the Government's funding programme, and as a supervisor of financial markets. Britain's central bank needs to ensure the continued smooth working of the government securities market but will be reluctant to run counter to strong commercial pressures in the market place.

For the moment, senior City figures are not ready to express their views in public, but there is widespread speculation about the intentions of the big U.S. investment banks which are actively expanding in the City. The traditional relationships between London merchants banks and broking firms could well change too if the present system of dealing on the Stock Exchange is altered.

*According to one leading mer*chant banker "This could be the most exciting opportunity in my life in the City."

The authorities are anxious to see the emergence of strong British securities firms, capable of competing with the big Wall Street and Japanese houses in the international markets. One school of thought is that some form of temporary restriction should be imposed to prevent foreign competitors from overrunning the UK securities industry.

The Stock Exchange has said minimum commission scales will be dismantled in stages over a three-year period. But according to one senior partner it would be "death and destruction" to introduce changes in this fashion.

Some big firms are urging instead that, after a decent interval for consultation, a date should be set on which all commissions should become fully negotiable overnight.

The commissions which seem most vulnerable are those on big orders for long-dated gilt-edged securities. One leading fund manager believes commissions in this area could eventually fall by 50 per cent or more.

But there remains considerable support among fund managers for maintaining single capacity in London, mainly because of its importance to the UK system of investor protection.

Editorial comment, Page 16

BIS unlikely to agree to early loan for Fund

BY JOHN WYLES IN KEFFALINIA

THE BANK for International Settlements (BIS) now seems unlikely to agree formally today to a $3bn loan for the International Monetary Fund to help the IMF meet the growing demands for assistance from Third World countries.

*This became apparent as the cen*tral bank governors of the EEC countries last night left the weekend meeting of Community finance ministers on this Greek island for today's BIS meeting in Basle.

The meeting ended with agreement on the need to press the U.S. to join in launching two new studies – one on a multi-currency reserve system and the other on the international liquidity problem.

West German opposition to an early decision on the loan has proved to be crucial. Most EEC countries have now come round to the German view that agreement on the loan would take some of the pressure off the U.S. congress to endorse the 50 per cent increase in the IMF's quota subscriptions, which is supposed to come into force next year.

The finance ministers also came closer to a common position on the vexed question of access to IMF assistance which has to be decided by the IMF interim committee meeting in Washington on September 25.

The Ten agree that the U.S. position is too restrictive. The Americans argue that the maximum cash assistance any country should obtain from the IMF should be fixed at 102 per cent of the country's quota.

*Mr Nigel Lawson, Britain's Chan*cellor of the Exchequer, said yesterday he thought a compromise would be found somewhere between 102 and 125 per cent. There had been strong support for a British proposal, setting guidelines which would release IMF aid for cases of special need at the rate of 125 per cent.

This might be agreed as part of a package, which could also embrace central bank loans to the IMF and a small new issue of Special Drawing Rights for developing countries, Mr Lawson said.

There was no great enthusiasm for a new issue of SDRs among EEC ministers, Mr Lawson added, although M Jacques Delors, the *French Finance Minister,* publicly advocated a new issue last week.

These differences of emphasis characterised much of the discussion between the EEC ministers despite their evident success in co-ordinating their approaches to the succession of key international financial meetings over the next few weeks.

They agreed to resist the growing chorus of demands for fundamental reform of the international monetary system. Instead they will seek a modest strengthening of the powers of the IMF and of the World Bank to help developing countries.

They bowed to French insistence on the need for change by agreeing to seek "improvements" in the international financial system.

Nigeria decision may lead to 50-cent rise in North Sea oil

BY RICHARD JOHNS IN LONDON

NORTH SEA oil prices could rise by 50 cents a barrel if the Organisation of Petroleum Exporting Countries (Opec) agrees this week to a similar increase in the rate for Nigerian crude.

British National Oil Corporation (BNOC), the leading trader of North Sea oil, *has decided to await the* outcome of Opec talks in Vienna before starting negotiations with suppliers and buyers over UK prices for the fourth quarter of this year.

Much will depend on the attitude of Nigeria, which produces crude of similar quality to North Sea oil. Oil company executives and traders argue that only if Nigeria raises its reference price from $30 to $30.50 a barrel will North Sea producers be able to justify a 50 cents increase. Such a move would bring the reference prices of crude produced in the North Sea and Nigeria in line with rates charged for similar quality oil in Algeria and Libya.

At present, the marker price for North Sea oil is $30 a barrel, based on the oil produced from Shell/Esso's Brent field. But under existing pricing agreements, British Petroleum charges $29.75 a barrel for its Forties crude.

A four-man ministerial team from Opec's 13 nations will meet on Thursday initially to review oil market conditions. This meeting could well be followed by a full emergency conference at which Opec members would decide on whether or not they should raise their collective production ceiling from the present level of 17.5m barrels a day (b/d). They would also probably consider whether an increase in the Nigerian price is justified.

The majority of members, not least Saudi Arabia, are against any increase in the Opec reference price of $29 set by the Kingdom's Arabian light crude for the indefinite future. The issue is Nigeria's differential.

BNOC and the producing companies in the North Sea agree that no decision on their price in response to a stronger demand and an apparently firm market can be taken until after Opec has decided on its policy.

There has been some pressure from producers, however, particularly those without refining or marketing interests, for an increase of 50 cents or so per barrel. But some are wary of responding to high spot-market prices.

North Sea and African crudes have continued to command a premium well above official selling rates. But there has been little trading during the summer doldrums, and over the past few weeks prices have begun to slip.

On Friday, for instance, Brent

Continued on Page 18

CONTENTS

Airliner issue dominates EEC talks

THE SOVIET destruction of a Sonth Korean airliner and its implications for East-West relations are expected to dominate a European Community foreign ministers' meeting in Athens today, Our Foreign Staff writes.

Most of the 10 ministers who met last week in Madrid following the airliner's loss, are expected to argue that what they regard as Moscow's prevarication over the incident creates doubts about Soviet credibtility in general.

All Community states except France, Greece and Ireland—which is not a Nato member—agreed at a Nato meeting on Friday to ban flights of the Soviet airline Aeroflot to and from their countries for two weeks from September 15 in protest at the Soviet action.

Bnt even West Germany, more ontspoken over the incident than some of its allies, says the U.S. should continue to press for an accord at U.S.-Soviet arms talks in Geneva, which are nearing a December deadline for the initial deployment of new Nato missiles in Europe.

The British Goverument announced on Saturday tat it will begin a 14-day ban on Aeroflot flights in and out of Britain this Thursday. The move follows a meeting of ambassadors of Nato countries in Brussels last week to discuss action to be taken against the Soviet Union.

Foreign Secretary, Sir Geoffrey Howe, said at the same time that Britain along with the U.S. has been seeking a "rather more substantial response" to the Soviet action.

Thomson Holidays, one of Britain's major tonr operators, announced at the weekend that it has cancelled its holidays to the Soviet Union until September 29. Passengers are to be offered alternative holidays, or a full refund.

Japan will impose a 14-day ban on flights by Aeroflot starting Thursday in response to Moscow's downing of the jetliner, according to the Japan Broadcasting Corporation.

Meanwhile, the second body to be found off the Japanese coast since tho Boeing 747 with 269 people aboard was shot down was discovered in Abashiri, northeastern Hokkaioo, yesterday.

A Soviet general, defending the Kremlin contention that a fighter pilot mistook the Sonth Korean Boetng 747 for a U.S. RC-135 spy plane, claimed the RC-135 has "an identical form and geometric dimensions" to the much larger 747.

An RC-135 is about half the size of a Boeing 747, has a much narrower wingspan, sports a sharper nose and lacks the distinctive forward hump that marks a 747.

Bnt Col. Gen. Nikolai Moskvitilev, bead of fighter aviation for the Soviet air-defence command, insisted Soviet pilots were not able to see any difference at night.

The U.S. beld a national day of mourning yesterday for the people killed in the airliner.

The U.S. also released new translations yesterday of recorded conversations by the Soviet pilots who intercepted and shot down the passenger airplane, saying the tapes proved there were no warning shots or signals to the doomed jet.

Nakasone calls for stable ties with Moscow

BY JUREK MARTIN IN TOKYO

JAPAN STILL wants "a stable relationship" with the Soviet Union "based on mutual understanding" in spite of what it considers to be the "abhorrent" Soviet action in shooting down an unarmed civilian airliner.

This was made clear by Mr Yasuhiro Nakasone, the Prime Minister, in a major policy address on Saturday at the opening of the new session of parliament. Mr Nakasone drew a careful distinction between dealing firmly with "an illegal act" and pursuing policies consistent with what he saw as Japan's emerging role in the world.

Thus, be said, "I intend to continue our tenacious dialogue with the Soviet Union to resolve the problem of the Northern Territories, conclude the peace treaty and establish a stable relationship based on mutual understanding."

The Prime Minister gave no time frame for renewing the treaty negotiations broken off five years ago—and indeed none is known to exist. But be did appear to be trying to take some of the beat out of the recent bilateral acrimony (marked last Friday by the imposition of limited Japanese sanctions against the Soviet airline Aeroflot).

His speech throughout was quintessentially Japanese, an art form balancing conflicting forces with the nuances lightly sketched rather than inked in. Its theme was what he called "the quiet revolntion" be wants for Japan and its external factor was what he described as his "keenly felt" sense that "international expectations and hopes of Japan are growing rapidly" in everything from trade policies to innovative fields such as genetic engineering.

Consequently be pledged Japan to the pursuit of "global" nuclear disarmament: but at the same time be insisted that the nation "would continue to build up a quality defence force at the minimum level needed for the self defence of Japan."

Relations with the U.S. ("the cornerstone of Japan's foreign policy"), would be based on "intimate trust and friendship"—but at no point did he nse the perjorative word alliance to define the relationship.

He spoke of the need to overcome "the historical hurdles of post-war politics" which be said militated against a more responsive Japan—an apparent reference to the "peace constitution" which bars collective self defence arrangements.

But, minntes later, he said: "We have no intention of altering in the least our policies of protecting the constitution, firmly observing the three non-nuclear principles, not being a military power and not posing a military threat to neighbouring nations."

He gave no details of any planned stimulus to domestic demand such as the promised income tax cuts, but put "administrative reform," by which he means reducing the cost of government, at the bead of his domestic agenda. Mr Nakasone thus appeared to be warning his political opponents that if they block administrative reform the tax cuts could be in jeopardy.

He also obliquely referred to what, throoghont this aotumn, is going to be the most burning popular issue in Japan—the verdict, due on October 12, on Mr Kakuei Tanaka, the former Prime Minister, in the Lockheed hribery trial.

FINANCIAL TIMES, USPS No. 190640, published daily except Sundays and holidays. U.S. subscription rates $420.00 per annum. Second class postage paid at New York NY and at additional mailing offices. POSTMASTER: send address changes to: FINANCIAL TIMES, 75 Rockefeller Plaza, NY, NY 10019.

Israel 'will not return to Shouf'

By David Lennon in Tel Aviv

ISRAEL WILL not intervene in the fighting on the Shouf Mountains and its troops will not return there, Professor Moshe Arens, the Defence Minister, said yesterday.

The current battles in the Shouf erupted after Israeli forces withdrew last week, leaving the Druze and Christians to fight for control of the area.

Reporting to the Cabinet on the situation in Lebanon, the Minister said that despite withdrawing to the Awali River, the Israeli forces would still cross that line in pursuit of Palestinian guerrillas.

Indeed, Israeli armonred patrols bave moved north of the Awali a number of times in the past few days. Professor Arens explained that these patrols were directed against Palestinian guerrillas.

The army, be told the Cabinet, will not intervene in the fighting between the Christians and Druze and Israeli troops will not return to the Shouf. During the 15 months that Israel occupied tho Shouf, it suffered considerable casualties and this was a prime factor in the decision to withdraw.

Not all the ministers were satisfied with the report of Professor Arens. His predecessor, General Ariel Sharon, called for a special meeting of the Cabinet's inner defence comittee to discuss the new situation, especially the return of Palestinian guerrillas to the areas Israel evacnated.

It was decided to bring this proposal for consideration before Mr Menachim Begin, the Prime Minister, who missed yesterday's meeting apparently dne to ill bealth. It is possible that the ministerial defence committee may meet within a couple of days to review Israel's policy

French oil groups threaten to cut imports and investments

BY DAVID HOUSEGO IN PARIS

THE FRENCH oil industry is threatening to cut back imports of crude and reduce new investments in refining as a result of its battle with the French Government over the Government's decision to modify the formula under which petrol product prices are calculated.

The Government has announced that for the remainder of the year the formula will be based on a parity of FFr 7.70 to the dollar as compared with an average rate in Paris last week of FFr 8.04. The decision reflects Government fears that an upward crawl in petrol prices would rebound on other products, thus undermining its anti-inflation strategy and the defence of the franc.

Total and Shell have joined Elf-Aquitaine in decrying the measure as adding to the losses of the French refining industry which amounted to FFr 12bn (£1bn) last year.

M. Armand Gilbaud, head of Total's refining subsidiary Compagnie Francaise de Raffinage called the decision "stupefying." He said that it would cause Total FFr 50m of losses in September alone.

Calling on the Government to reconsider its policy, he said that CFR was already taking steps to reduce its crude purchases so as to maintain only "the strict minimum of compulsory stocks." He said this would leave the company with no margin to meet unexpected upturns in demand during a cold weather period.

M. Gilbaud also warned that Total would postpone investment in refining and accelerate the cutback in its distribution network.

The Government is anxious for reasons of national security that France maintains a substantial refining industry. It has also been pressing the industry to install costly new cracking capacity to enable it to distill heavier fuels into the lighter products now in more demand.

M. Leonard Carous, president of Shell France also denounced the measure as "insupportable" saying that it would cause Shell to "review the whole of our strategy."

Elf-Aquitaine also threatened last week to cut back its refining operations.

Officials now admit that the Government underestimated the strength of the industry reaction. It was evidently felt by M. Jacques Delors, the Finance Minister, that holding down the inflation level in the second half of the year — when unforeseen price rises could have an unfavourable impact on wage claims — should have priority over the claims of the refining industry. M. Delores won warm praise in May from the industry by introducing a more flexible pricing formula in what has otherwise been a highly regulated market.

The irritation of the refiners has been exacerbated by the cut price petrol war initiated in the summer by the Leclere supermarket chain.

More die in Santiago on anniversary of coup

BY MARY HELEN SPOONER IN SANTIAGO

Gen Pinochet . . . new powers

DISTURBANCES have erupted one again in poor and working class areas of the Chilean capital in tho wake of last Thursday's anti-government protest and celebrations by Gen Augusto Pinochet's regime of its 10th anniversary in power.

At least a dozen people have been killed in incidents since the protest. Chilean authorities, who two weeks earlier had lifted the state of emergency in effect since the 1973 military coup, have invoked a "state of internal disturbance" which grants special powers similar to those under the state of emergency.

The state of internal disturbance took effect from yesterday', the tenth anniversary of the coup which ousted Mr Salvador Allende, the Socialist President.

The protest and the regima's tenth anniversary celebrations bave resulted in several clashes between protesters, police and pro-government supporters. On Friday roughly 20,000 Chileans marched in a well organised parade in support of tbe government, which exteoded for several blocks through the centre of Santiago.

Opponents of the regime confronted pro-government marchers on the edges of the parade and several scuffles and fights hroke ont between the two groups.

On Saturday several thoosand people joined the funeral procession for a young bus driver shot in the back during tbe night of protest in a poor section of Santiago. After tbe funeral tha crowd began shouting anti-government slogans and soma youths began burling rocks at Chile's paramilitary police, the Carabineros, who were patrolling alongside the procession.

The Caribineros moved in with armoured personnel carriers, and fired tear gas and rubber bullets into the crowd to disperse the demonstration.

Nassau bribery claim probed

BY NICKI KELLY IN NASSAU

The U.S.'s most prominent trial lawyer, Mr F. Lee Bailey, has offered to represent the Bahamas Government without fee in an attempt to ascertain the true facts behind a recent NBC television news story alleging that Prime Minister Sir Lynden Pindling and other Government officials were being bribed to keep mum about drug activities in the islands.

Mr Bailey, who maintains a home in the Bahamas, said he was personally offended by the "wildly inaccurate and recklessly reported" claims by NBC and wanted to make some reparation to the Bahamian Government for what had happened in his country.

NBC, he said, had been asked to prodnce the evidence on which reported Brian Ross had based his story. Mr Bailey indicated the Bahamian Government would take legal action unless NBC was prepared to retract the story and reach an out-of-court settlement.

NBC claimed that an agent of fugitive financier Mr Robert Vesco had allegedly being paying $100,000 a month to the Prime Minister and others to protect a drug smuggling operation being run by Mr Vesco from a small island in the Bahamas. Sir Lynden has denied the charges.

OVERSEAS NEWS

Zia warns of 'iron hand' for agitators

By Mohammed Aftab in Islamabad

AT LEAST 12 women politicians and political activists were arrested yesterday tn forestall their plans to demonstrate against the Government of President General Mohammed Zia-ul-Haq.

The agitation has drawn a stern warning from General Zia that his "Government will deal with mischief-mongers with an iron hand." "Those indulging in violence must he dealt with severe punishment," he said, giving his toughest warning to date in the four weeks of agitation.

The women were arrested at Lahore, 180 miles southeast of Islamabed, under martial law regulations, to be held for three months. They include lawyers, social workers and political leaders. Most are detained in their hnmes, following their decision to demonstrate on September 13.

The protest was to be part of the agitation launched by an eight-party opposition group called Movement for Restoration of Democracy (MRD).

As part nf the civil defence movement, 12 other women have voluntarily offered to be arrested in Sind—home town of the executed former Prime Minister Zulfikar ali Bhntto.

General Zia told a news conference in Hyderabad, "The Government is shutting its eyes as long as agitators indulge in political activities, which are banned under martial law anyway. Bnt the moment they indulge in violence and subversion, they will not be spared."

National day of protest at Aquino death

By Emilia Tagaza in Manila

VARIOUS opposition groups in the Philippines have declared today "National Immobilisation" day in protest at the assassination on August 21 of Mr Benigno Aqnino, the country's leading opposition leader.

Led by the Justice for Aquino, Justice for All Movemeot (Jajam), formed after Mr Aquino's death, the opposition has called on pnblic buses and taxis to stop plying their routes, and on students and workers tn stay bome all day. They have also called for a boycott by readers of all local newspapers until September 21.

Jajam, which includes most legal opposition groups and parties, human rights organisations and Aquino's relatives, said "the killing of Aquinn proves that the regime will stop at nothing in its attempts tn crush the nppositlon and all individnals and gronps fighting for freedom and social change."

Meanwhile, abont 37 pnlitical prisoners, inclnding a West German national detained in a subversion case and some priests and nuns were released over the weekend by President Ferdinand Marcos.

OBITUARY

Vorster: the epitome of uncompromising Afrikanerdom

Mr Vorster . . . repntation for ruthlessness

MR JOHN VORSTER, who died on Saturday night in Cape Town, dominated South African politics for almost two decades, and yet ended his career in semi-disgrace. As Prime Minister for 12 years, be came to represent the epitnme of uncompromising wbite rule in South Africa, but during his final years be was a brooding and irrelevant figure

From the moment he became Minister of Justice in 1961, when the black natinnalist movements were switching from peaceful to violent protest against apartheid in the wake of the Sharpeville massacre, be earned a reputation for ruthlessness and efficiency. He became Prime Minister in the traumatic aftermath of the assassination of Dr Hendrik Verwoerd in 1966, and rapidly demonstrated his consummate skill as a political tactician, outmanoeuvring his erstwblle opponents, and consolidating the overwbelming pre-eminence of the ruling National Party.

He was a man wbo never quite fitted the stereotype of his popular image. A one-time Nazi sympathiser who was interned by General Jan Smuts during World War II, he used the same methods to fight the anti-apartheid movement. Yet he was regarded by his own supporters as a man of warmth and sympathy, dedicated to family life and honest dealing, and always a popular speaker as mucb for bis humour as his outspokenness.

Mr Vorster's most dramatic initiative was his attempt at detente with black Africa, launcbed in 1974 at his meeting with Zambia's President Kenneth Kaunda, and organised by General Hendrik van den Bergh, his former security police chief. Yet that was doomed to failure by the upsnrge in black militancy whicb followed the collapse of Portuguese colonial rule in Angola and Mozambique, and by the massive international backlasb whicb followed the Soweto riots of 1976. Mr Vorster was once again cast in the role of ruthless police chief.

He was always more of a pragmatist than an ideologue, unlike Dr Verwoerd, and although an absolute believer in apartheid, he lacked his predecessor's *passionate vision*. Equally, be lacked the vision to see where reforms might lead the system.

The cause of his downfall—the scandal over missue of public funds in the Information Department to buy favourable publicity for South Africa—was in part a result of the secretiveness of his security apparatus. It might never have been exposed except for the growing strains within Afrikanerdom over the future of apartheid, and John Vorster was relegated to the sidelines, not as a disgraced reformer, but ironically as a disgruntled conservative.

Shagari issues warning as Ondo poll result overturned

BY OUR FOREIGN STAFF

PRESIDENT Sbehu Sbagari of Nigeria yesterday made a national broadcast warning against any incitement to violence, as a disputed election result was overturned by a panel of jndges, while two more are to be decided today.

The Nigerian bead of state, who was bimself re-elected last month, linked his warning with a promise of compensation for victims of violence which marred subsequent rounds of polling

The overturned result was that for govenor in the western state of Ondo, wbere the election of a candidate belonging to President Shagari's ruling National Party of Nigeria (NPN) precipitated some of the worst rioting by supporters of the rival Unity Party of Nigeria (UPN). An election petition panel decided on Saturday that Governor Adekunle Ajasin of the UPN had been elected, rather than his former deputy Akin Omoboriowo of the NPN.

President Shagari said that decisive security action would be taken to minimise the risk of further disturbances.

He said that any Nigerian "deliberately taking the law into his hands by inciting the public to violence, encouraging the use of libellous and provocative utterances or subversive acts . . . will definitely not escape the wrath of justice."

At the same time he proposed that a scheme be set up to reconcile opposing groups in the worst-hit states of Oyo and Ondo.

Rio hit by wave of looting as recession deepens

BY ANDREW WHITLEY IN RIO DE JANEIRO

A SUDDEN wave of crime, involving the looting of supermarkets and armed attacks on shops, restaurants and private homes, has swept over Rio de Janeiro state, alarming the state and federal authorities.

Violeot crime is nothing new in Brazil, especially in the suburbs of the major cities. But what is causing particular concern this time is the way io which bungry mobs of sbanty town dwellers are descending at night on supermarkets to ransack their sbelves.

Between Saturday and Thursday of last week, 21 supermarkets had been looted and attempts to sack another 41 had been foiled in the outlying poor suburbs of Rio de Janeiro, according to the state judiciary.

In one incident last week detachments of the military police used teargas and clubs to break up a crowd of some 500 people attempting to break into one supermarket. Two children were injured with bullet wounds.

Rio de Janeiro's entire force of 26,500 military policemen has been put on alert to combat the cootiouing threat, which Sr Leonel Brizola, the state's left-of-centre governor, has blamed on organised groups "fishing in troubled waters".

Despite the governor's vague cbarges of conspiracy, there seems to be a clear link between the latest crime wave in Brazil's second largest city and the social distress caused by the deepening of the economic recessinn. In the first seven months of the year 90,000 jobs have been losl in the state, according to industry spokesman.

Underemployment, estimated by economists as up to three times the misleadingly limited official unemployment figure of about 7 per cent, is an acute and growing problem.

And to make matters worse, for those in werk the real level of earnings is now being severely cut, as a result of IMF-imposed austerity measures.

To reduce the official inflation index, used as a basis for calculating wage and savings adjustments, the Government is resorting to a stratagem it has used before.

So-called exceptional price rises, resulting lrom natural cataclysms such as the drought in the North-East and the recent floods in the South nf the country, are "purged" - to use the official jargon - from the statistical base used to calculate the all important, monthly general price index.

The Planning Ministry has now decided to drop the publication of the accurate inflation figures and release only the "purged" version, a decision which the Gazeta Mercantil, the leading business daily, has described "an unhappy attempt to hide the truth".

In protest against the Government's manipulation of the statistics, Sr Julian Chacel, the head of research at the officially-backed Getulio Vargas Foundation, which is reponsible for the inflation ligures, has resigned lrom his post.

Spectre of debtors' club recedes at Caracas meeting

BY WILLIAM CHISLETT, RECENTLY IN CARACAS

THE SPECTRE of a Latin American "debtors' club," which haunts the international banking community, receded nver the weekend after cnuntries attending a special conference, sponsored by the Organisation of American States, ruled out joint action and recided tn set up a commission to study ways to ease the hurden of the region's onerous $300bn (£201bn) foreign debt.

The question nf a joint approach to try to pressure banks to ease deht repayment terms was never really on the *cards*, because of countries' different interests and standing with banks and the complexity of implementing such a move.

Nevertheless the idea, which has gathered momentum in recent months among radical politicians and which was forcefully aired at the conference by Sr Carlos Alzamora, the secretary of the Latin American Economic System (Sela) consultative body, formed by the governments of the region, hung in the background. Ironically it tok the conference to dispel such fears.

Brazil, the region's giant, with an unmanageable foreign debt of $90bn, went out of its way tn put down the idea at a delicale timein its own debt crisis and negotiations with the International Mnnetary Fund

Delegates, which included some Finance Ministers, hailed the conference as an "historic" meeting and said it had reopened a dialogue wbich bad been broken after Washington supported the UK in the Falklands war.

"We have managed to turn a financial issue into a political issue,' said the delegate for one major debtor nation, "and to get the U.S. to lislen."

The U.S. was initially against attending the conference because it feared that it might get oul of band. In the end, Wasbington agreed to send Mr Beryl Sprinkel, the Treasury Under-Secretary, who took a predictably hard line and promised no concessions. But the U.S. did commit itself to examine ways of bringing debt service payments "into line with a country's payment capacity and economic development needs," to try to foster a greater volume of exports to enable cnuntries to service their debts more easily and to look to increasing the funds made available by multilateral agencies.

How such vague terms are translated into concrete policies remains to be seen. The U.S. insisted that the sine qua non of any effort to stop the region's rapidly deteriorating balanre of payments situation was for each country to tighten its belt.

Both Washington and the commercial banks, who were represented by Mr Patrick Blake, a vice-president of Chase Manhattan, drew comfort from the fact that there was no co-ordinated action during the five days of discussions

Bolivia set to pay $30m interest

BOLIVIA INTENDS to pay some $30m (£20m) in unpaid interest shortly, paving the way for new foreign debt rescheduling talks in New York next month, Sr Fernando Baptista, the Finance Minister, said in Caracas at the weekend, Reuter reports from Caracas.

Sr Baptista, who has been attending a conference on regional debt problems, said the gnvernment missed last Monday's scheduled payment but was working on ways nf clearing the arrears this month.

He said the payment could not be made because Argentina had run up arrears of $95m in payments for natural gas. As *soon as this was paid*, Bolivia would clear its own debt.

With this payment, Bolivia will have settled just under $100m in interest arrears and can renew talks on rescheduling $450m in foreign debls.

It has been unable to pay principal on its $3.6bn foreign debt for two years and is discussing a $300m credit from the International Monetary Fund.

Zaire devalues currency by 80 per cent

ZAIRE has devalued its currency, the zaire, by 80 per cent against the U.S. dollar in line with Internatinnal Mnnetary Fnnd prescriptions for reviving its economy, Reuter reports from Kinshasa.

Mr Kande Dzambulate, the informatinn Minister, went nn state radln nver the weekend to annonnce the decision, which was taken at a Cabinet meeting on Friday.

Decline in production nf Zaire's mineral wealth, notably diamnnds and copper, allied tn corruption and mismanagement, have almnst bankrupted the heavily-indebted country, Western bankers say.

The dnllar is now valned at 29.9 zaires, compared with the previnns rate nf 6.06 zaires. The devaluatinn of 80 per cent brings the Zairean currency almost down tn the "parallel" nr black market level of around 30 tn 35 zaires to the dnllar.

Mr Dzambulote said nn IMF standby credit nf $350m nver 15 mnnths wonld soon be announced

Key role for Citibank in Moroccan debt talks

By Francis Ghilès

CITIBANK has accepted a key role in the steering committee set up by Morocco's leading creditor banks meeting in Rabat last Friday to discuss a rescheduling of the Kingdom's medium and long-term debt.

The committee will include representative banks from all major areas—Bank of Tokyo for the Japanese, Banque Nationale de Paris and Credit Lyonnais for the Freneb, Barclays for the British, Unioo de Banques Arabes et Francais and Gulf International Bank for the Araha, Chase Manhattan and Citicorp for the U.S. banks and Chemical Bank for the very small creditor banks.

It will hold its first meeting in London next Friday.

The rescheduling exercise is limited to $450m, the amount of principal repayments oo Morocco'a bank debt that comes due in the next 16 months. Short-term debt is excluded from the negotiations and the consensus among the 40-odd banks attending the Rabat meeting was to keep open short-term credit facilities to the Kingdom. These can be estimated at about $500m.

Mr Abdellatis Jouhari, the Moroccan Finance Minister, said Morocco would also seek an early meeting of the Paris Club to renegotiate the principal of its State-guaranteed debts whicb falls due over the same period. The amount of these repayments is estimated at $500m.

The Moroccans have paid all interest on their loans punctually and the decision to call their major creditor banks to Rabat ahead of the annual IMF meeting was welcomed hy the banks. It will ensure a greater degree of order in the rescheduling negotiations than might otherwise have been the case.

The IMF Board Is expected to formally agree to Morocco's request for a $300m loan on September 16. A $200m loan from the World Bank will follow soon after.

Morocco's total foreign debt is now estimated at $10.5bn. Of that, $3.48bn is accounted for by medium- and long-term bank loans, a further $1bn is short-term bank debt, and the rest Exim bank-type credit and aid. France bolds the largest stake. $2bn worth of Cosace guaranteed loans and a further $200-$300m in non-guaranteed bank loans.

Max Wilkinson, Economics Correspondent, discusses the actions prescribed for a sustained economic upturn

Fund urges worldwide cut in budget deficits to aid recovery

THE MAJOR theme of the International Monetary Fund'a Annual Report, published yesterday, is the need for countries to reduce their budget deficits in order to create the conditions for a sustained recovery of the world economy.

The report particularly mennooa the U.S. deficit as a potential obstaele to recovery in the longer term, but it believes that many other countries in the developed and in the developing world need to reduce government borrowing.

It says: "Budget deficits are a source of concern, not only because of their absolute magnitude but because of their size in relation to ovailable savings. According to staff estimates, the weighted average share of gross privte savings absorbed by central governments in the seven major industrial countries in 1982 was 23 per cent, more than half os large again as in 1979.

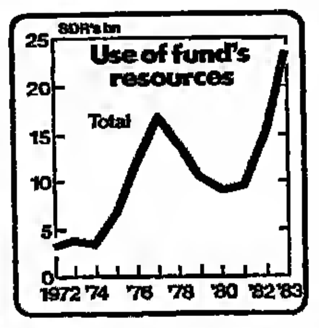
"Among individual countries, this percentage ranged from 12 per cent to as much as 56 per eent."

The Fund believes that as economie recovery proceeds, governments' financial posiﬁons will tend to strengthen and the total amount of savings will iocrease.

However, it warns that a "significant portion" of deficits in many countries now appears to be "structural"—by which it means that the deficit would continue even after full employment bad been reached.

It notes that many countries bave found it difficult to reduce government deficits at a time wben monetary policies bave been restrictive. One reason is that transfer paymeots including pensions and unemployment benefits have tended to inerease independently of any direct decision by the authorities.

The Funds say: "At one extreme the UK achieved a reduction of its fiscal deficit between 1978 and 1982, equivalent to some 2½ per cent of GNP (output), despite strong cyclical pressures tending to increase the deficit. Japan also improved its fiscal position between 1979 and 1982, but all other major countries have experienced increases in their deficits."

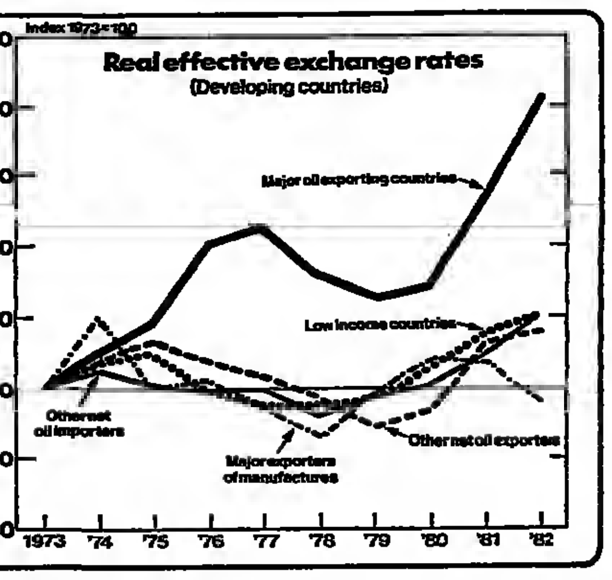


In the short term, the Fund acknowledges that the rise in deficits—associated in the U.S. with tax cuts—is likely to have an expansionary impact on individual economies.

However, in the medium term, it aays that a further reduction of interest rates, which would be an important component of sustained world recovery, will require budget deficits to be reduced, particularly in the U.S.

The Fund notes that the U.S. anthorities are "firmly committed to a reduetion of the structural part of their budget deficit." However it adds: "This deficit, already described in last year's annual report as the main issue concerning policies of the U.S. bas grown considerably in fiscal year 1983."

The 1983 annual report adds: "It remains the case that a change in the policy mix of the U.S. that would result from measures aimed at avoiding a persistent deficit over the medium term, while the targets for monetary growth remained unchanged, would tend to reduce nominal and real interest rates and bring about a fundamental improvement in the conditions for sustained economic growth.



"Given the stance of fiscal policy in the other relatively strong countries, a reduction of the U.S. fiscal deficit would also constitute a major step towards the mucb sought after convergence of the underlying economic and financial conditions among the major industrial countries."

The Fund says that less developed countries will also need to ensure that their fiscal deficits are not excessive to secure a sustained recovery.

It also makes the point that developing countries need to pay attention to the way in which government spending is allocated. It says there has been a tendency for cuts to be made to investment plans rather than to current consumption.

It says continned restraint on the demand of developing countries will be needed while they continne to face the present very high burden of debt service and repayments.

Even wben economic recovery gets under way in the developed world, the Fund says there is a growing realisation that growth is unlikely to return to the pace seen in the 1960s and early 1970s.

It says: "This prospect has implications both for the rate of growth of export earnings (of the developing world) and for levels of official development assistance and commercial bank flows".

The Fund also draws ottention to the close links between sustainable recovery associated with lower interest rates iu the developed world and recovery with a consequent easing of debt burdens in the developing world.

It says the developing world'a problems have been exacerbated by protectionist pressures which bave arisen during the recession.

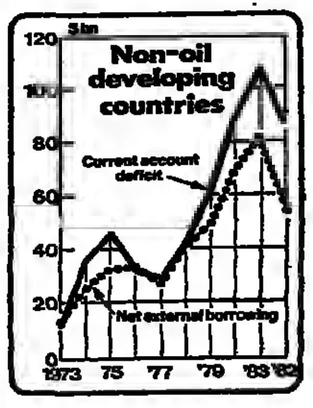
"Restrietions by industrial countries on their imports from the developing world have particularly serious adverse implications for the economies of developing countries.

"In the near term continued access to world markets by debtor countries is essential if they are to be in a position to serviee their exterual debt and maintain an adequate level of imports."

In the longer term, it says the countries worst hit by import restrictions in the industrialised world will be those developing nations which have followed the IMF's advice to develop outward looking growth strategies and the liberalisation of their domestic economies.

The report says: "Developing countries would benefit from a recovery in industrialised countries and would at a later stage accelerate this recovery by facilitating the expansion of industrial countries' exports."

In the developing countries themselves, the report emphasises the need to cbannel investment into schemes whicb will make best use of available labour and resources.



It says: "There is sometimes the temptation to bypass intermediate stages of development in order to specialise in more sophisticated forms of manufacturing. Scarce resources may be wasted by prematurely initiating, and subsequently protecting, activities that are capital intensive or use advanced technology, which cannot be efficiently operated at the level of labonr and management skills available within the forseeable future."

It suggests that developing countries should often take a less ambitious view of their opportunities. Looking ahead to what are likely to be the most practicable areas of investment in the medium term, they should give "proper weight" to developments in agriculture and the simpler forms of manufacture that do not make nnrealistic demands on the skill of the labour force.

In its review of the monetary policies of the industrial nations, the Fund notes that as a result of shifts in the pattern of borrowing and lending, the authorities in many countries, particularly the U.S., have taken a more flexible view about their response to the growth rate of particular monetary aggregates.

As a result the money stock in the seven major industrial countries has been allowed to grow at a faster rate in 1982 than in the immediate past.

The Fund estimates that the narrow measure of money M1 (cash plus bank deposits which can be withdrawn at once) grew in real terms at an annual rate of 2½ per cent between 1976 and 1978, fell at an annual rate of 2 per cent between 1979 and 1981 but rose again by 2½ per cent last year.

A similar pattern was observed for M2, a sligbtly wider definition of money which inclndes longer term bank deposits.

The Fund comments that the major rise and fall of inflation and interest rates in recent years, compounded with a rapid pace of financial innovatioo, have led to an increased mobility of funds between occounts with varying degrees of liquidity.

"In these circumstances, most monetary authorities, while continuing to regard their aggregates as target variables, are following a flexible and pragmatic approach to the conduct of monetary policy.

"In the first half of 1983, this approach led to a fairly accomodative supply of reserves to the banking aector in most of the countries considered here.

"While perhaps justified by the circumstances, the situation is not without risks. The fact that relatively high rates of monetary growth have not brought about any significant further decline in interest rates might indicate that the point might be approaching at whicb persistence with such high growth rates could rekindle inflationary expectations."

The Fund emphasises its perennial advice to countries to follow a cautious and prudent monetary policy, particularly in relation to the general desire to lower interest rates in order to bolster recovery.

Sharp increase in credit consumed by Third World

THE FUND says the most striking aspect of the financial year 1982-83 was the sharp increase in use of the Fund's resources by Third World debtor countries.

It says assistance to members exceeded that for any previous year by a very large margin.

Total commitments under stand-by and extended credit arrangements rose by SDR 8.8bn (£6.2bn) to SDR 25bn and gross purchases of currency from the Fund by members rose by SDR 3.3bn to SDR 10.3bn.

By the end of the financial year the Fund was providing assistance and belping with adjustment programmes in 39 different countries. The largest of the new commitments for the year were the extended arrangements for Brazil (SDR 4.2bn) and Mexico (SDR 3.4bn).

The rise of financial assistance associated with strict conditions which the Fund negotiates for economic adjustment and reform was matcbed by increases in help extended by the Fund under schemes associated with less stringeot conditions.

Purchases of foreign currency under schemes for helping to finance buffer stocks of commodities and for compensatory financing rose to a record level of SDR 3.7bn from SDR 1.63bn in 1983.

Assistanee under the facility to help with balance of payments deficits rose from SDR 5bn in the financial year ended April 30 1982 to SDR 8.7bn in the financial year 1983.

The Fund says the sharp rise in the use of its resources, coupled with the prospect of substantial payments imbalances among member countries, has placed its liquidity under considerable pressure.

For this reason, it believes the ratification of the increase in members' quota subscriptions from SDR 61bn to SDR 90bn is now urgent.

The Fund says the emerging strains in the world's financial system gave added importance to its efforts to forge links with other international bodies concerned with the world economic system.

It has agreed to improve its capability to compile information on external debt problems on an international basis in co-operation with other international institutions including the World Bank.

The Fund says it has also extended the technical assistance it provides for member countries in relation to the problems of external debt.

The Fund's net income for the financial year ended April 30 1983 was SDR 65m compared with SDR 92m in 1981-82. All of this was put in reserves which now total SDR 1bn.

Annual Report of the International Monetary Fund (1983). Washington, 20431, U.S.

CONTRACTS AND TENDERS

ANNOUNCEMENTS

PERSONAL

COMPANY NOTICES

CLUBS

FINANCIAL TIMES
PUBLISHED IN LONDON & FRANKFURT

[illegible]

INTERNATIONAL & BRITISH EDITORIAL & ADVERTISEMENT OFFICES

[illegible]

For Share Index and Business News Summary, Telephone 246 8026 (number, preceded by the appropriate area code valid for London, Birmingham, Liverpool and Manchester).

Soviet gas pipeline to India mooted

NEW DELHI — The Soviet Union has raised the possibility of supplying natural gas to India via a pipeline similar to the one being built to carry gas to Western Europe, the Press Trust of India (PTI) news agency said.

The idea was suggested at talks in Moscow between Mr Vishwanath Pratap Singh, India'a Commerce Minister, and Mr Nikolai Baibakoy, chairman of the Soviet state planning committee.

Mr Baibakov was quoted as telling the Indian side the Soviet Union was already committed to supplying Western Europe with gas from Soviet central Asia by pipeline, and "the day is not far off when we can supply gas to you.

"The fantasy of today can become the fact of tomorrow," he added.

The Soviet Union is one of India'a biggest trading partners and one of its main suppliers of imported crude oil.

The idea has emerged at a time of particular bilateral trade strife.

A 24-member team of top Indian industrialists is in the Soviet Union to discuss doubling the trade between the two countries and to urge the Soviets to adopt an "aggressive marketing strategy" to sell their products in India.

The industrialists, members of the Federation of Indian Chambers of Commerce and Industry, the highest body of Indian entrepreneurs, bava discussed engineering, chemical and non-ferrous products for the Soviets to export to India, the statement sald.

Meanwhile, India is turning to non-communist markets to sell goods that were once mainly exported to the Soviet Union.

Trade officials said India is exploring other markets for tea, textiles, cashew nuts and consumer produ!ts like cosmetics and knitwear after the Soviet Union redneed or halted purchases this year.

New Delhi has been puzzled by Moscow's decision to enforce the cuts, desplte Indian protests, seeing it as an unnecessary hiccup in normally smooth trade relations.

The officials said Moscow's reason for imposing the cuts was to slash a trade deficit with India whlcb stood at $140m at the beginning of 1983.

Reuter-AP

Foreign companies say U.S. state tax laws are unfair. Trade Editor **Christian Tyler** explains

Regan faces hard choices as pressure mounts

U.S. PRESIDENT Ronald Reagan has an uncomfortable decision to make this week. He will be trying to determine bow to curtail a state taxation system that many of the world's biggest companies complain is unfairly milking them of millions of dollars without at the same time damaging his popularity with the states and their Congressmen.

The system, known as unitary taxation, has already been the subject of protests by European governments and the European Commission and of law suits brought by multinational companies based both inside and outside the U.S.

Last week there was another demonstration: a trade mission from London to Florida—the lstest state to adopt unitary taxation — was cancelled. According to the organisers, the London Chamber of Commerce, most of the 50 companies who had planned to visit Florida lost interest ln the state when they heard that it was going unitary.

Unitary taxation is not new.

It started in California in 1936 as the means by which individual states assessed their share of taxes based on the profits made by inter-state companies like the railways. Under lt, the state requires a company operating ln its territory to declare profits made outside the state as well. It then calculates the tax it is due on a simple ratio of local assets, sales and payroll to the total business of the company. The company is treated as a "unitary" organisation.

Once applied to multinationals — wbether beadquartered in the state or foreign-owned—the system can have dramatic and quirky results. Companles say it is arbitrary and lands them with inflated tax bills and mountains of extra paperwork. For example, Britisb American Tobacco says it recently bad to prodnce for the state of California five years worth of back records from every asset, plece of rented property and machinery it had used worldwide.

The states say unitary taxation is the way to make multinationals pay their proper dues and stop them choosing wbere to report profits. In an lmportant case this summer in the U.S. Supreme Court involving Container Corporation, wbleb confirmed California's right to take world-wide profits into account, the state warned it would go bankrupt if the unitary system was outlawed.

In another Supreme Court case, Chicago Bridge and Iron wanted to be elassed as a limited company in Illinois because it was losing money outside the state, and wider reporting would have made its tax bill lower.

Alaska introduced unitary taxation for oil companies—as New York state has also done for some time—but then discovered it was collecting less money that way than uoder the conventional "arms' length" assessment system. California, the pioneer, raises about $600m a year by the unitary method; Florida expects to reap $35m.

On the other side Shell Petroleum MV, part of the Dntcb side of the oil giaot, says it is facing a buge extra tax burden in California amounting to several million dollars. It has taken legal action and its lawsuit has reached the federal courts: the company's argument is that the unitary method deprives it of its rights under a friendship treaty which also covers commercial relations between the U.S. and the Netherlands.

It is the world wide reacb of the method Sbell objects to, not the right of California to use unitary taxation for earnings within the U.S.

Unitary tax laws by several U.S. states are biting into the profits of multinational ompanies, inhibiting new foreign investment and threatening to provoke a major trade row. President Reagan is seeking a solution that will resolve foreign complaints without losing him valuable state and congressional snpport

That is the issua behind protests that will influence President Reagan's cbosen remedy.

Britain has been a leading critic, not least because it now probably accounts for the biggest slice of direct foreign investment in the U.S. Holland and Japan bave almost equally large interest (although Japan, perbaps for diplomatic reasons, has not said much) while Caoada, France and West Germany all have some stake in the outcome.

Mucb of the pressure from the British side has been generated by a campaign to which 40 companies subscribe about £3,000 a year each. The Unitary Tax Campaign retains a professional lobbyist on Capitol Hill, whose fee of more than £100,000 a year is paid by BAT. Members of the campaign include the four clearing banks, Thorn EMI, Unilever, ICI, Barratt Developments, Cadbury Schweppes and the Imperial Group.

Curiously enough, althougb BAT is one of the leaders it has actually benefited from unitary taxation. The company says it found itself paying several bundred thousand dollars less after California declared it a unitary company in 1970. California now saya lt is not unitary after all and is claiming back taxes. The company pays about $16m a year state tax against $150m to the Federal Government.

BAT fights the system because, it says, it is arbitrary, is potentially extremely expensive and could spread not only through the U.S. but into the Third World wbere multinationals are still regarded with suspiclon.

According to the British pressure group there are three ways out of the controversy.

- The President could lntroduce or support legislation that removes the state's right to take world-wide profits.
- the Supreme Court could be persuaded to rehear the Container Corporation test case;
- Nations could threaten in unison to renegotiate their taxation treaties with the U.S.

The legislative option is an extremely tough one for the President: there would be strong resistance in Congress, particularly in the House, against any measure that appeared to be undermining state budgets. For that reason, opponents of unitary taxation feel something must be done quickly if legislation is to be passed in the life of this Administration.

A furtber dilemma is this: if the law were to exempt all tbe multinationals from declaring earnings outside the U.S. the States could suffer a big drop in tax revenue. But if the law exempted only foreign-owncd multinationals then U.S. companles could fairly—and perbaps constitutionally—complain of discrimination.

As for the Supreme Court route, that too is not smooth. It is rare for the Court to rebear a case. The grounds for it doing so would be that the court did not give Container Corporation the chance to say that the U.S. Administration wanted to file an *amicus curiae* brief (ie, to declare its interest) in this case as it had in the Chicago Bridge and Iron case. the fact that no such brief had been entered—and that was partly accidental—is seen as having swung the majority verdict in favour of California's right to tax on a world-wide basis.

The renegotlatlon of treaties has been seen, up until now, as the method of last resort. But when the British Chancellor, Mr Nigel Lawson, wrote to his U.S. counterpart in July he dropped a clear hint that the threat of double taxation of British companies might have to be removed that way if the Administration did not do it by domestic statute.

GM seeks vehicle venture in Algeria

DETROIT — General Motors has proposed to the Algerian Government that GM be granted permission to form a joint venture in Algeria to assemble 100,000 cars and trucks annually by 1986-87, says Mr W. C. Mott, executive vice-president of GM's overseas unit, told Reuters.

GM agents will meet Algerian Government representatives this month to seek Government approval for the joint venture.

GM is one of several International vehicle makers to respond to an Algerian Government call for proposals on the planned industrial project.

Mr Mott said GM would have a minority equity stake in the Algerian venture and the Government a majority lnterest.

GM's proposal calls for establishment of a ear, light van and pickup truck assembly plant and a sheet metal stamplng facility about 200km from Oran. A foundry forging shop and component machlning operations would also be set up.

About 127,000 cars and trucks were sold in Algeria ln 1982.

GM is willing to set up an airstrip near the proposed assembly plant

Uganda buys UK farm tools

UGANDA'S Agriculture Ministry has ordered a million farm implements from Britain as part of a plan to boost coffee production.

A Radio Uganda report said the country planned to buy 500,000 hoes and 500,000 forks worth more than 1bn shillings (£3.7m) from Chillington Tools of Wolverhampton. The shipments are to be completed over the next 10 months. Uganda is the largest coffee producer in the Commonwealth, but most of lt is grown on small holdings where farm implements are in short supply.

Renter

Jakarta sugar plants

Indonesia will build 18 sugar factories by 1989 to reach sugar self-sufficiency, AP-DJ reports from Jakarta. Mr Achmaf Harmoko, the Information Minister, said aix of the sugar plants will be constructed by the government, while the remaining 12 will be offered to private companies.

NZ steel contract

Ishikawajima-Harima Heavy Industries of Japan bas been awarded a contract to complete the second stage of an expansion programme at the Auckland plant of the New Zealand Steel Development Company, Reuter reports from Wellington. No contract price was given. The contract bas to be approved by the New Zealand Government and covers the design, engineering, manufacture, construction and commissioning of hot and cold rolling mills.

U.S. group for Libya

Foster Wheeler Italiana, the Italian unit of Foster Wheeler of the U.S., has received a series of contracts from Occidental of Libya, an affiliate of Occidental Petroleum of the U.S., AP-DJ reports from Milan. Under the agreements the company is studying the possibility of installing gas and crude oil separation systems, secondary recovery techniqnes, electrical generation facilities and other infrastructure in order to develop Libya's Hakim oilfield.

Spain unveils new Stol aircraft

By Tom Burns in Madrid

THE CN-235, the short take-off and landing aircraft jointly built by Spain'a Construcions Aeronauticas SA (Casa) and by the Indonesia'a PT Nurtanio Company, rolled out on schedule Saturday at simultaneous ceremonies held in Getafe, near Madrid, and in Bandung, Indonesia.

The twin-engined aircraft, powered by General Electric CT7-7 engines and with a maximum capacity of 40 passengers, is due to make its maiden flight next month and aims to gain a share of the growing commuter / utility aircraft market. It will be competing with de Havilland Canada's "dash seven" and *Saab-Fairchild's SF-340*.

Casa executives gauge the potential market as 1,800 civilian units and a further 600 converted for military use.

SHIPPING REPORT

Tanker rates give way to weak market demand

BY ANDREW FISHER, SHIPPING CORRESPONDENT

SHIPPING markets had a slack time last week. The rate gains seen earlier this year in the tanker sector have not been sustained, whila dry cargo vessels still await a significant boost as world recession comes to an end.

"The market badly needs some upward impetus to get it out of tha summer morass," said Denholm Coates on the dry cargo market.

Demand on the North Atlantic routes was low throughout August, which is usually a dull month for shipowners. But activity should improve this month, said Eggar Forrester in its latest monthly review.

Even so, there is still a large amount of surplus tonnage available. Despite the rise in demand for tonnage, it said, "it is still lacking in the strength to provide an immediate turnround in market rates."

Paramount in boosting demand for tonnage for bulk carriers—taking mainly coal, iron ore, and grain—is the U.S. market.

Eggar Forrester noted that steel output, and prices of some steel prodncts, had recently risen in the U.S. But major centres of shipping demand like Europe and Japan bad not so far responded to the U.S. lead.

It said the recent upsurge in demand for tanker tonnage was led by American oil companies and traders. But last week, said E.A. Gibson Shipbrokers, tanker rates dropped back as the surplus tonnage problem reasserted its influence on the market.

World Economic Indicators

FOREIGN EXCHANGE RESERVES (U.S.$m)

	June '83	May '83	Apr. '83	June '82
UK	8,950	9,189	9,064	10,574
U.S.	7,850	7,850	8,570	9,000
W. Germany	37,679	38,677	39,501	37,435
Japan	20,502	20,279	20,000	21,702
Italy	16,961	15,130	14,599	12,859
Netherlands	8,880	9,061	9,130	7,146
Belgium	4,364	4,043	4,062	2,262
	May '83	Apr. '83	Mar. '83	May '82
France	16,883	16,682	14,213	13,669

Source: IMF

UK NEWS

Deal on shorter week likely for 2m workers

BY JOHN LLOYD, INDUSTRIAL EDITOR

NEGOTIATIONS covering 2m *workers in* Britain's *engineering* and metal working industries, which open today are expected to result in a reduction in working hours and also in sweeping gains by employers in securing flexible shift working and other productivity improvements.

More attention is being focused this year in these benchmark negotiations for the private sector on hours and working practices, since this is the first time since 1979 that unions have been permitted to make a further push for a reduction in working time.

A prolonged series of one and two-day strikes in 1979 resulted in a one-hour reduction in manual workers' hours from 40 to 39.

The opeaiog wages offer, not expected until October, is likely to be close to 3 per cent which is both the Government's target in the public sector and the figure emerging as the starting poiot for negotiations. The Confederation of Shipbuilding and Engineering Unions (CSEU) *has drawn* up a *claim for* a "substantial rise," and for harmonisation of white collar and manual workers' hours on 35 a week.

A major difficulty in these negotiations, which will be more crucial and more complex than for some years, will be the attempt at hours' harmonisation. White collar workers typically bave a working week of between 35 and 37.5 hours, with some as low as 32.5.

A common working week has long been the aim of the CSEU, but in practice the white collar workers always demand the same hours reduction as manual workers, thus leaving the time differential the same in absolute terms.

This year, however, talks between manual and staff unions have already explored the possibility of harmonising hours over several years. One avenue which the EEF may explore in negotiations is "buying out" a time reduction for manual workers with a further wages concession to the white collar workers.

The quid pro quo on the amployers' side, may well be a demand for the introduction of a "continental style" shift system, covering a six or seven-day week, rather than the present five days. This makes possible the utilisation of machinery for longer periods and cuts out overtime payments at the weekend.

Typically, under such a system four shifts a week are worked rather than five. Employers argue that the increased capital intensity of plants makes the system necessary, especially if they are to incur extra costs through hours' reduction. The system is used in a number of process industries.

Mr Terry Duffy, president of the Amalgamated Union of Engineering Workers, is enthusiastic about the principle of shorter hours as an aid to reduce unemployment, and can be expected to push hard for the maximum reduction.

Training scheme concern grows

BY ALAN PIKE, INDUSTRIAL CORRESPONDENT

CONCERN is mounting that the activities of some profit-motivated organisations may undermine the reputation and success of the newly-launched Youth Training Scheme (YTS).

Representatives of a number of Britain's leading chambers of commerce involved in YTS say that the *presence of "cowboy" organisations* is making the task of persuading companies to take part in chamber schemes more difficult.

The complaints were made at a meeting of the Association of British Chambers of Commerce training committee last week – at the same time as Trades Union Congress (TUC) delegates were expressing similar fears that some groups were becoming involved in YTS out of impure motives.

Chambers of commerce in many parts of the country have become YTS managing agents – responsible for finding trainees work experience places and generally supervising them during their year on the programme. An ABCC official said that *chambers were becoming* involved in YTS as a puhlic service, and at least one leading chamber accepted that it would make a loss on running its scheme. Difficulties were arising from some small managing agents going to potential work experience companies and presenting YTS not as a public service but as a profitable activity.

The association says that it has only verbal evidence of the problem so far, but if it can establish a firm case it will present it to the Manpower Services Commission and the government.

While the chambers of commerce and trade unions are on common ground over YTS abuses the ABCC has written to Mr Peter Morrison, *Employment Minister, saying* it believes TUC representatives on some MSC area manpower boards – the bodies which examine YTS schemes at local level – ere challenging schemes unreason ably.

Now that YTS is underway, with about 100 000 young people already placed on schemes, attention will turn to the quality of the programme.

'RATIONAL' STEPS NEEDED TO STRENGTHEN ALLIANCE

Closer links with Liberals, but no merger yet, says Owen

BY IVOR OWEN

DR DAVID OWEN, parliamentary leader of the Social Democratic Party (SDP) yesterday persuaded the party's annual assembly at Salford to sink its differences over a possible merger with the Liberals until after the next general election. He urged them to concentrate in the meantime on the "rational, sensible steps" needed to strengthen the SDP/Liberal Alliance's bid to become the only credible alternative to the Thatcher Government.

Owen: eventual merger not ruled out

His enthusiastic supporters gave him a standing ovation at the end of *his* first conference speech as party leader, which skilfully underlined the importance he attaches to maintaining an effective partnership with Mr David Steel, the Liberal leader, and emphasised that the joint selection of Alliance candidates for next year's European Assembly elections will be the exception rather than the rule.

Dr Owen endorsed the view of Mr John Griffiths, the Liberal Party president, who was a guest speaker, from the platform that the relationship between the Alliance partners cannot be allowed to stand still.

He summed up the sense of a lively and prolonged debate over the advantages of a marriage with the Liberals as being that the SDP should not spend the next two years "burying ourselves" in the wrangles over changes in the party's constitution which such a match would require. But Dr Owen stressed that he was not ruling out a merger for all time.

He declared: "It would be an extremely foolish person who took up the position – 'never' to a merger."

Dr Owen urged caution in the adoption of joint selection procedures for candidates for next year's European Assembly elections, but left open the opportunity for these to be adopted at constituency level in appropriate cases.

He echoed the warning given by another prominent SDP member that a party which gave up the right to select its own candidates in accordance with its own rules must inevitably surrender its claim to an independent and separate existence.

He indicated that reservations over joint selection should be set aside if this would enable them to avoid a situation where Liberal and SDP candidates fought one another – as had happened in four areas *during* the general election in June and which had given the media a field-day.

Dr. Owen highlighted the fact that there was nothing in the party's constitution to prevent SDP members taking part in a joint selection process in seats which it had been agreed should be fought by the Liberals.

But be pointed out that the Liberals *themselves* had not yet decided whether such an opportunity would be extended to the SDP.

Mr Roy Jenkins, Dr Owen's predecessor, was also given an ovation when he powerfully warned that the Alliance could not remain static. It must either advance or recede, he said.

Mr Jenkins insisted: "We must be prepared for an advance, and, I believe, a substantial advance." There was a need to take account of the sensitivities of SDP members – "There is no point in splitting the SDP in an attempt to unite the Alliance."

Mr Jenkins dismissed any possibility of the Alliance disintegrating, but highlighted what could prove to be a more subtle danger. "If either side were to allow narrow party chauvinism to develop, we might become a little like the EEC at its worst – held together by material self-interest and without sufficient sense of common ideals and purposes."

While accepting that it would be foolish to seek a premature and, therefore, disruptive merger with the Liberals, he urged that no limit should be set to the march of the Alliance.

"Do not let us try to impose too many bans or rules or proscriptions on local parties from the centre," he said."If the Alliance is to grow closer – which it must – it is best that it should do so on the grounds from the bottom up."

Highlighting the opportunities opening up for the SDP and the Alliance, Mr Jenkins claimed that Labour was about to compound uoacceptable policies with a totally inexperienced leadership.

This would provide Dr Owen with new chances to use his experience in Parliament and his unique ability to seize the issue of the moment and to synthesise it with a longer-term perspective.

Another former Labour MP and Governmeot Minister, Mr Dick Taverne, argued that the possibility of a merger between the SDP and the Liberals before the next general election was not on the agenda.

He accepted that under the SDP constitution there could be no question of imposing joint selection universally, but he could see no objection having joint selection if they wanted to have it.

Royal Navy set for a new era of smaller warships

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT

IN A MOVE which could signal a break with post-war naval tradition, the Royal Navy is considering building smaller and simpler warships. The aim would be to prevent any further decline in the number of warships as well as to contain defence costs.

New warships, somewhere between a modern 3,700 ton frigate and a much smaller coastal patrol ship, should cost about £30m to £35m at current prices or about a third of the estimated cost of the Navy's newest frigate design, the Type 23.

Announcing the move yesterday, Admiral Sir Lindsay Bryceson, Controller of the Navy and in charge of naval procurement in the Ministry of Defence, said that the new ship could not have the full capability of the Navy's current frigates. It would however have a very useful role in peace time as a deterrent presence and intelligence gatherer both in the Nato area and in patrolling such areas as the South Atlantic or the Gulf while it would also have a "very worthwhile weapon capability."

Admiral Bryceson, speaking et the Royal Naval Equipment Exhibition in Portsmouth, yesterday emphasised that it was "early days" in the formulation of designs for the new ship. He hoped for full co-operation from industry, he said.

His announcement yesterday was seen by many observers as the first real sign that the Royal Navy is prepared to be more flexible in the face of new ideas in ship design and the ever rising costs of warships and their weapons.

The Admiral accepted that the move towards the smaller ship was an indication of the Navy's flexibility and took account of lessons learned during the Falklands conflict. There is also bound to be particular interest in the announcement in the light of a recent controversy in ship design. In the last two years private ship designers have sought to interest the Government in a new warship which would be "short and fat" compared to the long slim lines of traditional vessels.

Admiral Bryceson said the short and fat design – dubbed S90 and produced by Thorneycroft Giles associates – could be considered for the new smaller warship.

The Ministry of Defence is currently evaluating the results of independently-financed trials of S90 models. The proposed vessel has raised a storm of controversy and a great deal of hostility in naval circles with particular criticism of its sea-keeping qualities.

Proponents of the S90 have also canvassed it as an alternative to the Type 23 frigate but yesterday Admiral Bryceson made it clear that this could not be so. The first order for the Type 23 should go to British Shipbuilders next year and would be the first of at least eight vessels to be ordered, he said.

British Shipbuilders' stand at the naval exhibition has the most detailed models yet made public of the controversial new frigate which was originally to have cost under £70m.

Admiral Bryceson also insisted that the new smaller warship would not be an alternative to the Type 23 or other frigates though he did indicate that given financial constraints there would have to be a "trade off" between the number of Type 23s and the number of smaller ship that could be built. He suggested, for example, that one or two Type 23 could be built at the same time as two or three of the smaller ships.

He also indicated that another key factor in promoting the idea of a smaller new warship would the possibility of overseas sales. Britain has not exported a new warship for nearly 15 years.

Italians bid for navy contract, Page 11

Bank forecasts sharp decline in dollar rate

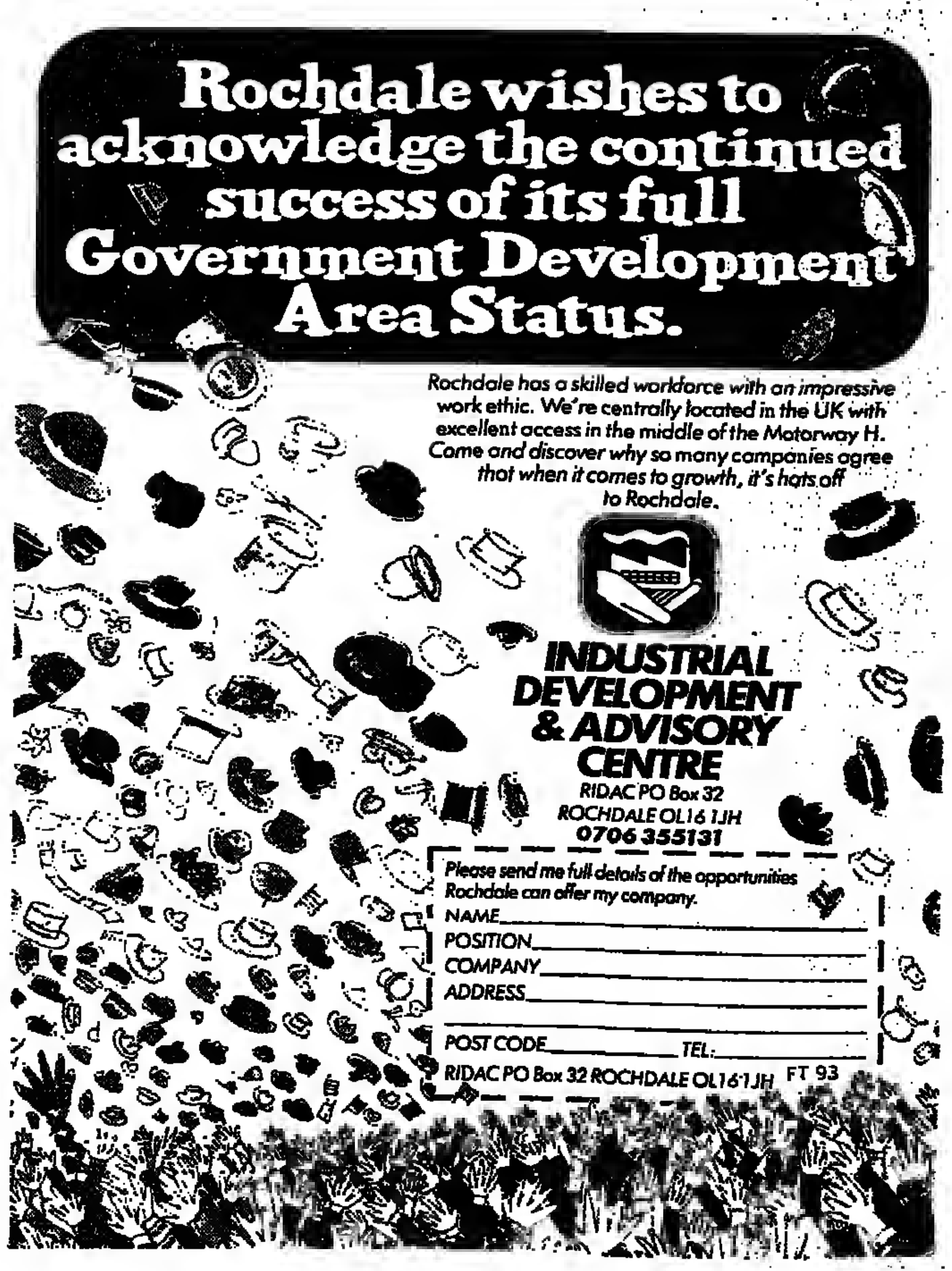
By Robin Pauley

THE DOLLAR, which peaked at DM 2.73 on August 11, its highest rate for 10 years, is likely to decline with increasing momentum against all major currencies from now according to projections published today by Lloyds Bank International's Financial Outlook.

Lloyds predicts a drop to DM 2.60 by the end of September and to DM 2.25 by the middle of 1984, which would mean a drop of 18 per cent in the 10 months from August 1983.

"It would not be the first time that a major change in sentiment about the dollar – one way or the other – has been triggered off by the collective bysteria of the IMF annual meeting," the Lloyds analysis comments.

Once the dollar begins to fall, *sterling should rise against it*, but by less than the D-Mark and the yen



UK NEWS

Liverpool dockers to seek halt on ship ban

By Our Labour Staff

DOCKERS in the Port of Liverpool are to call on the national docks and waterways committee of the Transport and General Wnrkers' Union to withdraw their recent instruction for the "blacking" of ships and cargoes switched between ports.

The policy is aimed at achieving greater stability in the declining ports industry. But the Mersey sbop stewards now believe it is only being obeyed by Liverpool and Glasgow, the two west coast ports most likely to be affected and claimed It bas been a failure.

The Mersey district committee of the National Docks and Waterways committee is expected to approve at a meeting today the recommendation from the Liverpool stewards agreed at a meeting nn Friday. At the end of last month Liverpool appeared to be the test case for the scheme.

The dockers refused to work on a Polish freighter which was claimed to have been diverted from Hull where the dockers were involved in a dispute.

Efforts will be resumed in Liverpool this week to resolve an industrial dispute, which has closed the inland container base at Aintree for 10 days, and another dispute which has halted delivery of 4,000 Ford Escort cars from Halewood to dealers throughout the country.

Officials of the Transport and General Workers' Union and the government arbitration service Acas are involved in both.

Whitehall fears grow over municipal reforms

BY ROBIN PAULEY

SENIOR CIVIL servants at the Department nf Environment are seriously concerned that the Government's proposals both to limit local authority rate (tax) rises and abolish the Greater London Council and six English metropolitan county councils may end in expensive and chaotic failure.

Mr Patrick Jenkin, Environment Secretary, and his departmental ministers are facing increasing anxiety about the legislatioo the more the civil servants try to work through the detailed procedures and implications.

The difficulties are compounded both by the fact that Mrs Margaret Thatcher, the Prime Minister, recommended the moves, having personally taken control of the Cabinet committee looking at local government reform before the election, and by growing fears in government circles about the difficulties of getting the Bills, which have substantial constitutional implications, through the House of Lords.

Officials are unhappy at suggestions that the plans nriginate from them. They say they have been advising against such moves to every Environment Secretary since the 1979 electinn. The main points in the analysis provided by the officials include:

● Council overspending of government targets is likely to grow because there is no incentive for the major spending councils (GLC and Metropolitan counties) to do anything hut spend more heavily if they know they are to be abolished in 1986.

● The costs of abolition will turn out to be very much higber than the £20m to £70m originally estimated, mainly because the complications of relocating services are going to he much greater than expected.

Jenkin: growing anxiety

● Ratepayers may well end up with higher bills because joint committees and their bureaucracies are likely to cost more than established council services; in addition, reform costs are also much higher once the process begins.

● The Government could find it difficult to avoid becoming bogged down in the minutiae of spending in the Metropolitan counties between now and 1986 and, once the rate (tax) limit legislation is in place, there will probably be no alternative but to take the controversial step of putting commissioners into the councils to make cuts.

● In addition to these problems the Government's new system of allocating grant, which has had to be changed seven times since 1981–82, *is close to ruin and may not be* able to survive the decade.

The Prime Minister is believed to remain determined to press ahead and to be "unimpressed" by all the talk of difficulties. But ministers are taking the possibility of a Lords revolt seriously. Lord Bellwin, Local Government Minister, has been trying to organise a deal with the Tnry-contrnlled Association of District and County Councils, so that their vice-presidents in the Lords would not muster opposition.

● Failure by civil servants to devise and operate an effective system of control over natinnalised industries finances has cost the country dearly, according to a senior civil servant.

Mr Maurice Garner, former Under Secretary at the Trade and Industry Department and now visiting professor of government at the London School of Economics, writing in today's Public Money, refers principally to the Departments of Transport, Energy and Industry – the sponsoring departments for Britisb Rail, National Coal Board and British Telecom.

All were criticised by the Comptroller and Auditor General in a report to the Public Accounts Committee before the election for being in adequately informed about, for example, the natinnalised industries' methods of investment appraisal.

Mr Garner blames the failure of civil servants to operate effectively on inexperience of officials, small size of supervisory units and lack of professionalism in the department concerned.

Digital to change function of Ayr plant

By Maurice Samuelson

DIGITAL Equipment, whicb claims to be the world's second largest manufacturer of computers and related equipment, is to switch its plant at Ayr, Scotland, to the manufacture of components for its range of personal computers.

The plant currently carries out final assembly and test activities and the change will invnlve retraining many of its 570 emplnyees.

"This is the first step in our plans eventually to supply all nf nur European personal computer customers from Europe," says Mr Jean-Claude Peterschmitt, president of the company's European division.

The change at Ayr over the next 12 month will be the second in a series nf mnves by Digital to convert each of its four European plants to specialised high volume production. Based in Maynard, Massachusetts, the company emplnys mnre than 70,000 people worldwide.

Its other European plants are at Kaufbeuren, West Germany, and at Galway and Clonmel in the Irish Republic. Some of the work carried out at Ayr will eventually be transferred to Galway.

● A fnrmer factory site a mile from the centre nf Leicester is to be turned into a wholesale cash and carry warehouse, providing 300 new jobs.

Crown Crest Enterprises, the Leicester-based wbnlesale casb and carry company, will start the new venture on a 17-acre site bought from Metal Box.

BR calls in Dowty to put advanced train back on rails

BY HAZEL DUFFY

BRITISH RAIL has called in the Dowty group to work on the tilting mechanism nf the troubled Advanced Passenger Train (APT).

Dowty Boulton Paul at Wolverhampton has been awarded a contract "to undertake an in-depth study" of the complex system whicb controls the tilt mechanism. The company says it will work with BR engineers in providing advice on the system.

The award nf the contract demonstrates that BR still aims to get a high speed train with a tilting mechanism – which is essential for negotiating track curvature – into passenger service. BR's attempts to bring the APT into service last winter were thwarted by mechanical failures and very barsh weather.

Two of the three prototype APTs developed at BR's Derby engineering works have resumed operations on the West Coast line to Glasgow, but without passengers. BR says it intends to invite passengers, probably BR employees, back on to the APT shortly, so that a simulated passenger operation can be resumed.

The third APT is being used as a design test bed at Crewe engineering works. BR would like the APT name to be dropped, instead concentrating on producing a "high speed, tilting train which will retain the aerodynamic design and lightweight quality" of the APT.

The replacement of the APT's advanced braking system by disc brakes, and the substitution of coaches with shared bogies by coaches with self-steering bogies, are two modifications that have already been accepted.

The APT was designed to enable BR to run high speed trains on tracks which have a high incidence of curvatures, instead of embarking on the construction of special tracks, as the French have done with the TGV. The project has received numerous setbacks, however, and there have been reports that BR had abandoned the whole concept.

Dowty group produces several control and communications systems for railways. Dowty Boulton Paul's work on aircraft control systems, however, is the reason for BR seeking its advice on getting the tilting mechanism right on the APT.

Pensions directive attacked

By Eric Short

THE NATIONAL Association of Pension Funds (NAPF) bas strongly criticised the proposals in the EEC's draft directive on equal treatment fnr men and women in occupational social security scbemes.

Its comments on the directive stress that the NAPF has always supported non-discrimination between men and women in pension schemes. Its objection is against the very rigid definitinn of equality in the directive, whicb would make it illegal for trustees to take account of any biological or social differences in calculating all benefits provided by pension schemes.

This concept as given in the directive would mean that many members of pension schemes, both men and women, could find themselves worse off if the directive were implemented as it stood.

Thus in computing part of the pension at retirement for a tax-free lump sum, operating on a unisex *mortality* basis, It would mean that women would have to forgo more pension for the equivalent lump sum than at present, while meo would beoefit.

Conversely, under the EEC proposals, the cash accumulated by an employee making extra contributions would secure a lower extra pension for men than at present, while womeo would get a higher pension.

The NAPF wants the definitioo of equal treatment to be more flexible so that the benefits would be actuarially equal, taking mortality and other factors into account.

The implementatioo date of the directive is January 1, 1986, which the NAPF feels is far too close to enable all the necessary changes to be made. It also wants any changes to apply to new scheme members only.

Employers' guide to overseas living costs

FINANCIAL TIMES REPORTER

DIRECTORS of British companies now have an up-to-date guide* on some of the costs of being represented overseas.

It comes from the Confederation of Britisb Industry, the employers' organisation, with a guide to living costs in 16 western European countries. It is intended to assist companies in judging the costs involved in sending staff abroad.

For example, opening an office in Brussels would mean paying a sales manager a salary of up to £25,000 a year. In Portugal, a salary of £7,500 might be feasible, it says.

The monthly rent of a three-bedroom unfurnished flat varies between £129 in Lisbon and £734 in Vienna. Telephone charges show an even bigger difference – in Athens, an unlimited local call costs the equivalent of one penny while in Oslo local calls are 9p a minute.

In Oslo, too, a three-course dinner for four in a fashionable restaurant, with vintage wine, coffee and tax, could cost up to £180, compared with as little as £45 in Madrid (and about £110 in London).

* *West European Living Costs 1983; CBI Publication Sales, Centre Point, 103 New Oxfnrd Street, Lon*dnn *WCIA IDU; £12.*

BASE LENDING RATES

A.B.N. Bank	9½%	■ Hambros Bank	9½%
Al Baraka International	9½%	Heritable & Gen. Trust	9½%
Allied Irish Bank	9½%	■ Hill Samuel §	9½%
Amro Bank	9½%	C. Hoare & Co. †	9½%
Henry Ansbacher	9½%	Hnngkong & Shanghai	9½%
Arbuthnot Latham	9½%	Kingsnorth Trust Ltd.	11 %
Armco Trust Ltd.	9½%	Knowsley & Co. Ltd.	10 %
Associates Cap. Corp.	9½%	Lloyds Bank	9½%
Banco de Bilbao	9½%	Mallinhall Limited	9½%
Bank Hapoalim BM	9½%	Edward Manson & Co.	10½%
BCCI	9½%	Midland Bank	9½%
Bank nf Ireland	9½%	■ Morgan Grenfell	9½%
Bank Leumi (UK) plc	9½%	National Bk. of Kuwait	9½%
Bank of Cyprus	9½%	Natinnal Girobank	9½%
Bank of Scotland Ω	9½%	National Westminster	9½%
Banque Belge Ltd.	9½%	Norwich Gen. Tst.	9½%
Banque du Rhone	10½%	P. S. Refson & Co.	0½%
Barclays Bank	9½%	Roxburghe Guarantee	10 %
Beneficial Trust Ltd.	10½%	Royal Trust Co. Canada	9½%
Bremar Holdings Ltd.	9½%	Standard Chartered ‖	9½%
Brit. Bank of Mid. East	9½%	Trade Dev. Bank	9½%
■ Brown Shipley	10 %	TCB	9½%
CL Bank Nederland	9½%	Trustee Savings Bank	9½%
Canada Perm't Trust	10½%	United Bank of Kuwait	9½%
Castle Court Trust Ltd.	10 %	United Mizrahi Bank	9½%
Cayzer Ltd.	9½%	Volkskas Intnl. Ltd.	9½%
Cedar Hnldings	10 %	Westpac Banking Corp.	9½%
■ Charterhouse Japhet	9½%	Whiteaway Laidlaw	10 %
Choulartons	10½%	Williams & Glyn's	9½%
Citibank Savings ¶	10½%	Wintrust Secs. Ltd.	9½%
Clydesdale Bank	9½%	Yorkshire Bank	9½%
C. E. Coates	10 %		
Comm. Bk. nf N. East	9½%		
Consolidated Credits	9½%		
Co-operative Bank *	9½%		
The Cyprus Popular Bk.	9½%		
Duncan Lawrie	9½%		
E. T. Trust	10 %		
Exeter Trust Ltd.	10½%		
First Nat. Fin. Corp.	11½%		
First Nat. Secs. Ltd.	11½%		
Rnbert Fraser	10 %		
Grindlays Bank ‡	9½%		
■ Guinness Mahnn	9½%		

■ Members of the Accepting Houses Committee.
* 7-day deposits 6%. 1-month 8.25%. Short-term £8,000/12-months 8.8%.
† 7-day deposits on sums of: under £10,000 6%, £10,000 up to £50,000 7%, £50,000 and over 8%.
‡ Call deposits £1,000 and over 6%.
‖ 21-day deposits over £7,000 7%.
§ Demand deposits 8%.
¶ Mortgage base rate.
Ω Money Market Cheque Account— 9.09%. Effective annual rate— 9.48%.

Shore accuses Thatcher over monetarism

BY KEVIN BROWN

MR PETER SHORE, the Labour Party's chief spokesman on financial matters, yesterday accused the Government of turning Britain into a monetarist laboratory for the Western world.

Mr Shore, an outside candidate in the Labour leadership election, said high unemployment owed far more to changes in economic policy, political philosophy and public opinion than to the oil shocks of 1974 and 1979 and the introduction of new technology.

In a speech to the Public Service International in Stockholm, Mr Shore said: "All that one can say is that it has simply not worked. We are poorer, not richer, as a nation than we were four years ago."

Mr Shore said taxation was at its highest for 25 years, while public spending as a proportion of national income was higher than when Mrs Thatcher came to power despite all the Government's attempts to reduce it.

The country and the parliament faced the fact that the Government itself no longer believed that its policies could bring sustained growth. Mr Shore presented a seven point strategy for kindling economic expansion and reducing unemployment, based on reflation through public spending.

Without mentioning the words "incomes policy" he accepted that controls on pay would be necessary if the public sector was to be used as an engine for growth.

"If governments are to pursue expansion policies, and if they are to win over pessimistic and highly sceptical electorates, they must be able to assure opinion that they are not just opening the doors to increased inflation," he said.

He also called for a major onslaught on tax evasion and avoidance as a part of restructuring of the tax system to contend with the "populist" Thatcherite appeal of reducing taxes as an alternative to maintaining or improving public services.

Consumer boom 'likely to fade'

By David Churchill, Consumer Affairs Correspondent

A WARNING that the consumer boom may be running out of momentum comes today from a survey of consumer markets published by the Henley Centre for Forecasting.

The survey suggests that the present recovery in the UK economy which has been under way for more than 12 months is unlikely to become any stronger.

It believes that consumer booms founded on an upsurge of consumer confidence and on the use of credit have proved in the past to be "fragile."

During the rest of 1983, Henley expects that spending volumes will be largely underpinned by gains in real disposable incomes.

It forecasts an increase of just over 2.5 per cent in real disposable incomes this year, compared with 1982.

"We expect to see this trend continue through 1984, with quarter by quarter rises of between 1.5 and 2 per cent," it says.

Although Henley forecasts some upturn in the rate of increase in average earnings next year, it points out that inflation is likely to be several percentage points higher.

"The closing of this gap will represent a squeeze on real incomes, particularly for those in receipt of welfare payments," it states.

The increase in consumer spending volume in 1984 will be "modestly below the gains registered this year," it says.

Pro-Soviet challenge to leaders of UK Communist Party

BY JOHN LLOYD, INDUSTRIAL EDITOR

THE GROWING challenge posed by fiercely pro-Soviet elements within the British Communist Party to its present leadership is outlined in a pamphlet now circulating within the party.

The pamphlet, "The Crisis in Our Communist Party – Cause, Effect and Cure," proposes an alternative leadership for the party. In defiance of party practice, it calls for an "alternative list" of candidates for the leading positions to challenge the one now being prepared by the party's election preparation committee for the biennial delegate conference in November.

The pro-Soviet wing within the party has taken strength from views in support of the Soviet Union expressed recently by Mr Arthur Scargill, the mineworkers' president. It believes that an uncompromising revolutionary line, coupled with much tighter discipline and a purge of the "liberal" or Eurocommunist elements will reverse the party's decline.

Struggle within the party is already having a pronounced effect on the broader labour movement, where it plays a key organisational role on the Left. Left-wing delegates at the Trades Union Congress last week were lining up on one side or the other – a number of supporters of the pro-Soviet camp, vigorously supporting Mr Scargill when he came under attack for criticism of the Polish Solidarity union and opposing moves to express regret for the shooting down by Soviet aircraft of the Korean airliner.

In a letter published in a Workers' Revolutionary Party newspaper, Mr Scargill had described Solidarity as "an anti-socialist organisation who desire the overthrow of the socialist state."

Mr Charles Wood, author of the pamphlet, rests much of his case on a return to basing the party's work on the industrial working class, and on stepping up activity within trade unions.

● Mr Ray Chadburn, leader of Nottinghamshire miners, yesterday appealed for calm in the coalfields after protests by Polish-born miners against the planned visit of Mr Scargill to Ollerton colliery, Nottinghamshire, this morning.

The coalfield employs thousands of Polish-born miners and their sons. Many have been infuriated by Mr Scargill's visit to Moscow and his criticisms of Solidarity.

Mr Chadburn said: "I am asking our Polish-born union members to keep away from Ollerton, and not to stage any kind of protest. The union's Nottinghamshire branch is firmly behind Solidarity. We have given the movement £10,000 out of our funds and have sent equipment such as typewriters and photocopying equipment to Poland. We have even staged demonstrations in favour of Solidarity."

"Our Polish friends had far better leave this to the union's national executive meeting on Thursday when there will be questions about Mr Scargill's use of union notepaper to write his now famous letter."

Heseltine leaves for U.S. talks on missile strategy in Europe

BY LYNTON McLAIN

MR MICHAEL HESELTINE, the Defence Secretary, leaves for Washington today for his first talks with Mr Caspar Weinberger, the U.S. Defence Secretary, since taking office.

The talks are at the invitation of Mr Weinberger and are expected to be the last between the two defence secretaries before the crucial meeting of the nuclear planning group of the North Atlantic Treaty Organisation (Nato) next month.

The group meets twice a year and the meeting will be the last formal discussion among defence ministers of the Nato states prior to the start of installation of the U.S. cruise and Pershing II missiles in Britain, West Germany and Italy by the end of the year.

On his visit to Washington, Mr Heseltine will also make an "important speech" to the Georgetown Institute of Strategic Studies, the Ministry of Defence said in London. But no details were available in advance.

Mr Heseltine and Mr Weinberger are expected to discuss their final plans for the installation of the U.S. cruise missiles in Europe. Britain is to go ahead with the deployment of the first of the cruise missiles at Greenham Common air base, Berkshire, by the end of this year and at Molesworth, Cambridge, at a later date, unless the Soviet Union agrees at the Geneva arms control talks to reduce the number of its SS20 missiles aimed at Western Europe.

The Soviet Union has offered parity between its SS20s and the combined British and French nuclear forces if the U.S. does not go ahead with the deployment of the cruise and Pershing II missiles.

Heseltine: "finalising" missile plans

In the House of Commons in July, however, in the debate on the Government's defence estimates, Mr Heseltine said that if there was a substantial breakthrough in the scale of deployment at the arms limitation talks, "that would have to be taken into account by a British Government in deciding its own irreducible minimum deterrent in the new context that would then exist."

Fisher to invest £7.5m in new plant

BY IAN RODGER

FISHER CONTROLS, the UK subsidiary of the U.S. chemical company Monsanto which manufactures process control valves and measurement instruments, is investing £7.5m ($11.1m) in a new plant and in production equipment.

The plant, at Medway, Kent, which will eventually employ 570 people, will take over Fisher's production of control valves, regulators and associated field measurement instrumentation in the UK from two existing factories at Rochester, Kent and Cowdenbeath, Scotland.

The closure of the Rochester and Cowdenbeath factories will be phased over several months as the new factory is equipped. Almost all of the 450 people employed at Rochester are expected to move to the nearby Medway site, and the company will offer many of the 250 Cowdenbeath employees the opportunity of relocating in Kent.

Fischer said the consolidation of its UK manufacturing activities had become necessary because of overcapacity in the industry and weak demand in many of its markets, notably the chemical, petroleum and electric power generation

"We reviewed a number of possible options, and concluded that this particular combination of new investment and closures offered the best prospects for the greater number of our employees, for our customers and for our business," Mr Tom Parkinson, UK managing director, said.

A Fisher spokesman added that the investment in modern production machinery and systems meant that capacity would not be reduced

The Rochester factory that Fisher now plans to vacate was occupied jointly with Marconi Aviation.

Plans for three new safe deposit centres

BY CHARLES BATCHELOR

CONTRACTS WILL be awarded shortly for three more safe deposit centres to be built in London and Dublin in a further expansion of one of the fastest growing sectors of the security industry.

The new centres will be owned by companies which have previously not been involved in this sector of the security business.

Rosengrens, part of the Swedish Aga group, said it will shortly announce the signing of contracts to build safe deposit centres in the West End of London and in Dublin for two separate groups of investors.

Rosengrens has up to now dominated the field of design and installation work for the new centres – it does not operate them – but there are signs of increasing competition.

A newcomer to the UK market, the U.S.-owned National Safe Corporation, said it expected to be awarded the contract for a deposit centre to be opened in London in mid-1984.

National Safe is part of the John H. Harland Company, an Atlanta, Georgia-based cheque printer and supplier of bank equipment.

Mr David Painter, managing director of National Safe, said his company was working closely with Guidehouse, a small merchant bank, to provide financing for the project.

Mr Paul Higgins, manager at Guidehouse, said a number of institutions such as pension funds had expressed an interest in providing funds.

UK NEWS

Wage unit defies Tebbit in pay ruling

By John Lloyd, Industrial Editor

MR NORMAN TEBBIT, the Employment Secretary, has suffered a challenge to his strategy of keeping down pay awards.

A wages council covering some 694,000 low-paid workers in licensed hotels, restaurants, confirmed at the weekend an award of 7 per cent – in spite of strong representations from Mr Tebbit.

The council – which includes representatives of the employers, unions, and independent members, is chaired by Professor Sir John Wood, head of the Central Arbitration Committee. It also raised the percentage rate for 16-year-old workers from 70 per cent of the adult (18-plus) rate to 73 per cent, and left the 17-year-old rate at 80 per cent.

This is in direct defiance of Mr Tebbit, who has campaigned for a reduction in the wages of young workers in order to place them back into the job market – a cornerstone of government employment policy.

The employers' representative had proposed a reduction in the 16-year-old rate to 68 per cent, after a freeze in the rate last year. Employers also proposed a postponement of the settlement date from October 6 to January 6 – a proposal also defeated by the council.

Increases give an average rise of about £4 to this group, one of the lowest-paid and least well-organised in the country. Only 20 per cent of the workers are covered by collective bargaining, and only 10 per cent are in union membership – principally the General Municipal and Boilermakers' Union.

The rises bring a receptionist up to £69 outside London and £75.20 inside; and a waiter to £58.80 outside London and £60.40 in London.

The Government has consistently warned that wages councils, which generally cover the unorganised sectors, are under threat. They are likely to be abolished when the opportunity comes in less than two years,

SDP plans tighter control on company funds for parties

BY PETER RIDDELL, POLITICAL EDITOR

TIGHTER shareholder controls over company political cootributions will be proposed by the Social Democratic Party (SDP).

The party's policy sub-committee has suggested changing the Companies Acts to ensure that all shareholders are able to have a full say in determining any such contributions. The proposals are expected to be approved tomorrow by the SDP's ruling Council for Social Democracy.

The proposals form part of a broader reform on the system of political financing. For example, the SDP has suggested that procedures for contracting-in on the payment of the political levy by trade union members should replace the present contracting-out.

The party believes that it should be no easier for companies to contribute to political parties than for trade unions to do so and that there must be equal restrictions on corporate funding of political parties.

The issue was discussed in general terms at the last meeting of the Council for Social Democracy in Newcastle in January, and the policy sub-committee has now produced detailed recommendations that:

- All decisions by companies to make political contributions can only be taken by the shareholders and each specific contributioo must be so approved.
- No payments can be made without the prior agreement of a shareholders' meeting (usually the anoual meeting of the company concerned). It will not, therefore, be possible for the board of directors of a company to agree to make o political donation and then seek retrospective approval from the shareholders.
- It shall not be open to the shareholders' meeting to delegate to the board of directors any decision concerning a political contribution.
- All political contributions will have to be reported in the company's annual report

At present the law says that political payments need only be approved by the directors of the company concerned.

In the long term, the party believes that the provision of state finance for political parties is the only really effective respoose to the problems of financing political parties. The SDP argues that with the provision of state funding, private sources of finance – whether from unions or business – will become of secondary importance and the pressure of private interest groups on the decision-making of political parties will be greatly reduced.

The SDP receives oo money from union political levies and so far has been largely unsuccessful in raising money through company contributions.

BP's sale may cost Exchequer over £90m

By Ray Dafter, Energy Editor

THE EXCHEQUER is set to lose between £90m and £140m in tax revenues over the next three years as result of British Petroleum's plan to sell a major stake in its North Sea Forties oil field, according to City of London analysts.

But doubt remains over whether BP will receive sanction for its scheme to sell 12.5 per cent of its field interests for more than £260m. Ministers and officials within the Treasury and the Energy Department have let it be know that they are "none too pleased" with the timing and manner of BP's announcement last week. Inlnnd Revenue and Energy Department officials pointed out that BP's plans were still being considered and no decisions had yet been taken.

The Government, which provides consents for licence changes, is concerned about the impact of the proposed deal on the Treasury's own £500m fund-raising operation involving a further sale of state-owned BP shares.

Energy Department officials are also assessing the implications of the precedent being set by BP in Forties. BP wants to sell small units, each representing 0.25 per cent of the field, to a wide number of companies

Lex, Page 18

Mitsubishi car batteries for UK

BY JOHN GRIFFITHS

THE FIRST Japanese-made automotive batteries to eoter the UK replacement market are being launched by Mitsubishi Power, a division of Mr Michael Orr's Colt Car Company.

The move has taken European battery makers such as Chloride by surprise. This is because eveo though the replacemeot market is very large, estimated at 28.4m last year by Chloride, it has been a widely-held view that over-capacity among European makers and high transport costs of such a heavy commodity would deter battery imports from the Far East.

European makers are likely to keep a close watch oo whether Colt's action is likely to be repeated by other importers.

Mr John Rose, sales manager of the new venture, was unable to say last night how many sales were projected, or what share of the UK market Mitsubishi Power is seeking – "but we intend to become a permanent part of the battery market in the UK."

Mitsubishi Power, which was set up 12 months ago to import other Mitsubishi products such as generators and industrial engines, is seeking about 200 distributors in the UK. So far, it has signed up about 20, in addition to distribution through Colt's network of 170 vehicle dealers.

The "GS" batteries are produced by Genzo Shimadzu (GS), which supplies about 40 per cent of the batteries fitted as original equipment by Japanese car makers.

The range being launched covers all Japanese-built cars and most European models. Mr Rose said it would be extended to all makes, plus commercial vehicles, agricultural, construction and special purpose vehicles.

Mr Rose said the battery sales would be aimed at the premium-end of the market.

UK NEWS

BBC television for Brussels viewers likely by Christmas

BY RAYMOND SNODDY

BY CHRISTMAS, Britons in Brussels should be eble to relax and choose which BBC 1 or 2 television programmes they want to watch.

An agreement between European broadcasters and the Belgian cable operators is due to be signed in Brussels nn September 29. It will bring BBC programmes to the Belgian capital and many other parts of the country.

Mr Marcel de Sutter, president nf the 40-strong Belgian Cable Operators' Association, said yesterday he believed that by Christmas BBC programmes would be available on two-thirds of the Belgian cable network. Belgian cable companies have 2.6m subscribers covering about 86 per cent of the population.

Mr de Sutter, who runs Radio Public, a cable network in Brussels, said he thought BBC programmes would be particularly attractive to the international community in Brussels.

BBC programmes have for years been taken off air and shown in the coastal cable systems of Ostend and Bruges. But the Belgian telecommunications authorities refused to make the microwave connections needed to bring the programmes to Brussels until agreement was reached with the BBC.

As soon as the final agreement is signed work on completing the connections will begin.

Mr de Sutter, who has been involved in negotiations on the issue since 1972, said that the Belgian operators had agreed to pay BFr 405 (£5.25) a year per subscriber to the foreign broadcasting organisations whose programmes they carry. This is about 15 per cent of gross revenue and the figure will rise in proportion to increases in cable subscriptions.

The two BBC channels in Belgium will be joining three German channels, three French, two Dutch and one Luxembourg channel in addition to the four national Belgian channels.

The signing looked as if it might be delayed because of the difficulty the broadcasting organisations appeared to be having in deciding how to divide the cake between each other and the other organisations which have rights in the programmes such as film distributors.

The gross amount paid for the BBC programming each year will be between £1m and £2m

Political career 'draws fewer businessmen'

BY TIM DICKSON

THE HOUSE of Commons has fewer businessmen today than during Sir Harold Wilson's term as Prime Minister, according to a survey.

Challenging the assumption in some quarters that Parliament is "overrun" with entrepreneurs, the first issue of Your Business magazine estimates that "only one MP in six could claim any knowledge of the hard world of profit and loss" and only 7 per cent of the new intake in June this year have any business experience.

The study is based on information from the Industry and Parliament Trust (whose function is to encourage MPs to learn about industry), The Times Guide to the House of Commons, the Confederation of British Industry and the official Register of Members' Interest.

Some of the information is "not always clear" and that some MPs without business interests today point to experience they have picked up in the past. "In fairness the decline in the number of MPs with industrial backgrounds mirrors the general move from employment in manofacturing businesses to service industries," the magazine adds.

The survey nevertheless shows that Parliament continues to be "top heavy" with lawyers, teachers, ex-local government officials, consultants, journalists and accountants.

Your Business, which will be published every two weeks, has been launched with a £350,000 advertising and sales promotion budget.

Italians bid for navy arms contract

By Bridget Bloom, Defence Correspondent

INTENSE competition is developing between British, American and European arms companies to supply the Royal Navy with advanced new sea-skimming missiles.

The first shot in what promises to be a tough autumn campaign was fired in London by Oto Melara, the Italian defence company, which is offering a version of its Otomat anti-ship missile to be produced jointly with Marconi Space and Defence Systems and Plessey Displays.

Dr Lanfranco Cerrina, commercial director of Oto Melara, held out the prospect of the Italian Government buying British Sea Harrier aircraft if the Royal Navy bought the Otomat missile.

In any event, Dr Cerrina said, some 65 per cent of the work on the Otomat missile would be done in the UK, while the Italian Government had guaranteed to buy other defence equipment from Britain to make the "offset" on the deal 100 per cent.

Oto Melara is nne nf five companies which have submitted proposals to the Ministry of Defence for new sea-skimming missiles which would be fitted to the most modern versinns of the Royal Navy's Type 22 frigates and the new Type 23 ships. Initial contracts would be worth some £200m.

Oto Melara developed its Otomat missile in conjunction with the French company, Matra. Also bidding is the French company, Aerospatiale, makers of the Exocet missile whose air-launched version was responsible for the loss of at least two British ships during the Falklands war last year.

But observers, who believe that purchase of the Exocet would be opposed on political grounds, think the choice will be between British Aerospace Dynamics Group, with a new sea-launched version of Sea Eagle, and the U.S. Harpoon, made by McDonnell Douglas.

Mr Michael Heseltine, Defence Secretary, is expected to decide between the rival systems

The British Aerospace missile is effectively still on the drawing board whereas the American Harpoon is already fully developed.

BUILDING AND CIVIL ENGINEERING

African highway master plan

A STUDY of an African highways master plan is to be made soon, according to Mr Daniel Ngangmutu of the United Nations' Economic Commission for Africa (ECA), based in Addis Ababa. The study, and the slow progress that can be expected towards implementation of its ambitions, present implications for consultants and suppliers with expertise and equipment to sell, and for Europe's own continental transport network development.

The ECA is the lead agency negotiating, co-ordinating and mobilising finance for the UN's Transport and Communications Decade in Africa 1978-88, launched by the General Assembly in 1977 as it sought to promote its so-called New International Economic Order (NIEO).

The ECA formulates Decade's global strategy and says the hitherto nationally-based and framentary regional transport development of Africa bas been replaced since 1979 by Decade policies and programmes. These, to be completed by the end of this decade, the ECA says will have "enormous impact" on Africa's transport and socio-economic development.

Decade was designed in two pbases. These were outlined by Mr Ngangmuta in June when he addressed a seminar in Barcelona which dealt with the Mediterranean as the passageway for exchange among the three continents embracing it—Europe, Africa and Asia.

The first pbase (1980-83) ends in December. It consists of 1,091 projects estimated to cost about $8.7bn (£5.7bn) of which $6.7bn (£4.5bn) has been secured. The second pbase (1984-88) consists of 1,322 projects of estimated cost of about $31bn (£20.9bn).

Last February the ECA told the fifth African Highways Conference, meeting in Libreville, Gabon, that five Trans-African Highways were under construction and four more were in the planning stage. Progress has variously been reported although European observers are sceptical of some advances claimed.

So far the ECA has established two intergovernmental highways authorities to advance Decade. These are:

- The Lagos-Mombasa Trans-African Highway Authority (1980); and,
- The Cairo-Gaberone Trans-East African Highway Authority, which met for the first time, in Cairo, last March.

Other authorities are expected to be set up following the acceptance in July by the UN Economic and Social Council in Geneva of a report by the ECA and tha UN'a Economic Commission for Europe (ECE) on their evaluation of prospects for the construction of a permanent link across the Strait of Gibraltar.

The UN reported last year that the African highways network was improving slowly, qualitatively and quantitatively, though it faced many problems. These include initiating the type of development and maintenance of networks best-suited to the present and future needs of different national economies; the difficulty of obtaining adequate funds for construction and maintenance programmes; technical complexities; continuing poor organisation and insufficient trained manpower; poor, uncoordinated road research; and that reliable statistical data on African roads is scarce if available at all.

Two other problems posing opportunities for the world civil engineering community are that Africa:

- Does not generally make or assemble its own road-building equipment; and,
- Has not developed capable indigenous construction enterprises.

Of the proposed trans-African highways four link into the Mediterranean network and thus pose implications for other African regions and for Europe. The Mediterranean region'a primary road network is a 4,813km modern highway from Alexandria, Egypt, to Rabat, Morocco, to wbich all Mediterranean ports are linked.

A highway link around North Africa and Southern Europe is in preparation through the completion of the Trans-European North-South Motorway (TEM) from Gdansk to Istanbul through the Balkans, with possible extensions to the Eastern Mediterranean — the area the transport network for which is heing promoted by the UN's Economic Commission for Western Asia (ECWA), based in Baghdad—and through the promotion of the proposal to build a fixed link across the Strait of Gibraltar in the Western Mediterranean.

Africa is not yet and will only be indirectly connected to TEM through a southern extension into Western Asia wbere it will pass through Syria, Lebanon and Jordan and enter the Sinai, Egypt, at the tip of the Gulf of Aqaba. There it will feed into the Egyptian bighway system and thus link with the Mediterranean coastal higbway from Cairo to Tangier.

A main aim of the fixed link at the Strait of Gibraltar is to join road and possibly rail networks of Europe and Africa and by the resulting facility for long-baul goods-carriage to boost development of Africa's trade and transport network. Tbe two European inter-regional highway network links to the Mediterranean are:

- TEM; and,
- The VENESO route.

TEM, for which the UN Economic Commission for Europe, based in Geneva, is the executing agency, will serve south-eastern Europe by improving the infrastructure of participating countries, create a link between Europe and Western Asia and provide new access to Mediterranean ports.

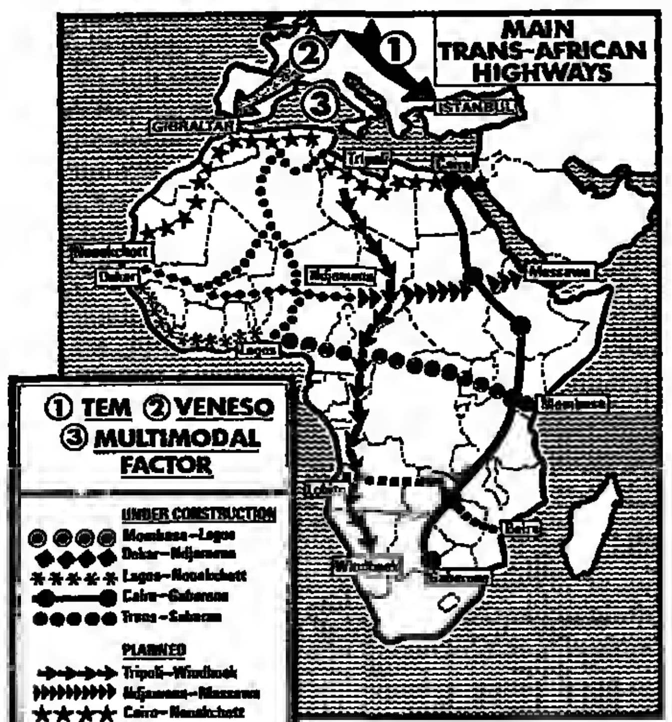
TEM feasibility studies are backed by $3.5m from the UN Development Programme in two phases ($2m, $1.5m), both over three years, now half expired. Of its 10,000 km, 2,000 km are already built, for example in Italy, Bulgaria and Czechoslovakia.

Under an agreement between the ECE and the Czechoslovak Government PRAGOPROJEKT, the Design, Consulting and Engineering Institute, was entrusted with preparing guidelines of aesthetic, environmental and economic consideration for TEM, which is hoth operational and under construction in Europe.

VENESO, the Voie Européenne Nord-Est Sud-Ouest, is the economic concept of a North-East—South-West Europe continental derelopment route to be served by a highway from Helsinki to the Strait of Gibraltar. The VENESO lobby comprises more than 100, mainly Frencb, local authorities and chambers of commerce which bas pressed for the route since 1970. It is based in Clermont-Ferrand, which would become a nodal point in the movement of trade to Africa via South-West Europe and the Western Mediterranean.

ALAN ELLIS

Multimodal axes across the Mediterranean compete with TEM and could either contribute to or subvert the VEMESO-Gibraltar Strait fixed link proposal



PROFILE OF MICHAEL MANSER

Iconoclast at the RIBA

ON JUNE 30, Michael Manser was handed the keys to the back door of No 66 Portland Place, leading to tbe car park aod to the drinks cabinet in the president's office of the Royal Institute of British Architects.

The day after becoming presideot of the RIBA, Mr Manser, wbo cycles cr rides the tube and generally prefers his tonic neat, returned both.

Probably the most reluctant man ever to bold this office, Mr Manser also cares little for other traditions and routines which have become associated with it. He bas already caused a stir in some circles by announcing that he will not be makiog an inaugural speech, which he ronsiders would be both presumptuous and out-of-date. He would, he says, rather do something more useful—but will not reveal what until he's ready.

Born in 1929, Michael Manser qualified in 1954 and has been the principal in bis own practice for 22 years. During this time he has designed public sector housing and £300,000 private houses, schools, laboratories, swimming pools, churcbes, shops, offices and social centres for which he won half-a-dozen architectural awards and commendations. He has written about architecture in just about every publication which covers the subject and bas been an assessor on many award schemes including the FT's.

Not surprisingly, be had little time to become involved in the RIBA. In stark contrast to recent presidents, most of whom "did time" on couocil and committees, many for years, Manser became known directly to the profession mainly as a result of a personal crusade he launcbed and maintains against the interference of wbat be describes as "under-qualified and opinionated planners" in what architects called "aesthetic control" of their designs. As there can hardly be an architect in the UK who does not support this cause, it is not surprising that when he stood for election (ooe ooe vote) he won by a handsome popular majority.

He feels he has an obligation to his electors, and stands by views expressed a year ago, when he became senior vice-president. He is concerned that the RIBA is not working properly in the service of members. Already a team, headed by Fred Lloyd-Roche, former manager of Milton Keynes Development Corporation, and with access to management consultants, is looking into the organisation and staffing with, Mr Manser insists, full co-operation from the staff. Whether this will survive significant trimming of the organisation remains to be seen.

Ho is also concerned that the presidency is not what it should be, and bas set out to prove that a man can become RIBA president without abandoning his practice for two years (no, he insists, you get fewer rather than more commissions because everybody assumes you are far too busy) and without his wife needing an appointment to see him (as Owen Luder used to quip).

So far he has managed to spend no more than two half-days a week at Portland Place, which gives him hope—and not only for his own survival: Michael Manser's real aim is to make it possible for the top names in architecture (Richard Rogers, Norman Foster, Jim Stirling) to consider taking on the joh. The cause of achitecture, be insists, would be better served by an internationally famous practitioner talking to the world about his ideas than by an institution man talking to his old chums. And big name architects would only consider standing for election if the presidency was changed along the lines he is now trying out.

Another side of the same coin is his insistent on more delegation of presidential powers to other honorary office holders RIBA staff, which he is determined to implement.

Ultimately, though, these are all details, paving the road to hetter architecture, which is his burning passion and the common denominator of all his aims. For example, he firmly belleves that better architecture can only be achieved if the architect remains leader of the building team. He is therefore convinced that the latest construction fad, project management, is a passing phase —especially since the RIBA relaxed its code to enable members to become directors and form limited liability companies. Clients will soon realise, he says, that provided they choose the right architect, there is no one better to give him exactly what they want.

Which is not to say that all architects are good—and here Michael Manser blames architectural education for many of the profession's ills. Apart from this own experience of it, his two children, botb now practising architecture independently, went to two scbools each, giving him more recent insigbts. Overall, he says, the profession is over-populated and many architects would probably be happier doing something else.

The answer, he says, is to provide three-year courses in architecture, leading to a BA similar to other bumanities degrees. Graduates sbould by then have a clearer ides of what they really want to he, and the few with both the ability and the commitment to become good architects would complete their training along far more practical and technical lines than most schools of architecture now offer. He considers even the best schools at present waste a great deal of students' time and wonld insist on the architects of tomorrow being instructed in the financial and administrative facts of life alongside basic like keeping the rain out.

Top of his list of bobbies is "going home"—home being a 250-year-old timber-framed terraced house by the Thames in Chiswick, where be can read, listen to music, or potter round the garden with his wife Jose wbo shares his love of architecture and writes about design. As these words appear in print, the Mansers will be on boliday in New York—"Our annual fix"—looking at wbat is being huilt in the capital of free enterprise, and perhaps re-charging batteries and reloading ammunition for the battles to come in the next two years.

MIRA BAR-HILLEL

Union view of project management

A SEA CHANGE in the construction unions' previously hostile attitude to management fee and project management schemes was signalled last week by Mr Les Wood, general secretary of the Union of Construction, Allied Trades and Technicians, at the TUC Congress in Blackpool.

Mr Wood told delegates that instead of opposing the trend towards independent project management teams, unions should co-ordinate their activities so that they are able to control labour supervision and the selection of contractors as soon as possible after a project is initiated.

His remarks were official confirmation of a growing trend on the TUC's construction industry committee to acknowledge that the growth of project management is inevitable.

However, although UCATT has the broad support of Mr Frank Earl, the General and Municipal Workers' construction officer, the Transport and General Workers Union is understood to be extremely lukewarm on the initiative.

Speaking after the debate, Mr Wood said: "The growth of project management is going to be increasingly important in the future, and we have to accept that it is here to stay.

"The essential point is that unions must get involved at the very earliest stages of a project to establish good management-union relations and to counter the very real risk of cowboy elements being brought in."

Mr Wood added that he had been very favourably impressed by Taylor Woodrow's attempts to involve and cater for unions on the major construction work now underway on the new Heathrow Terminal Four building.

But he added that on many sites poor project management had led to serious problems.

IVO DAWNAY

TECHNOLOGY

EDITED BY ALAN CANE

DANISH COMPANY IMPROVES ANTI-POLLUTION PROCESS

How to curb the rain that kills

BY HILARY BARNES

NIRO ATOMIZER, the Danish market leader in the spray drying removal of sulphur dioxide from power station emissions, has made a significant new improvement in the process, which is playing a key role in efforts to curb the acid rain problem.

Using the same process by which over 90 per cent of the sulphur dioxide can be removed from flue gas emissions, Niro can now simultaneously remove up to 50 per cent of dangerous nitrogen oxide emissions—and at almost no extra cost.

Small scale

The nitrogen oxide removal process has been tried successfully in a small scale industrial plant and this autumn will undergo a full-scale industrial test in the U.S. before the process is ready for market introduction, probably at the end of October.

Sulphur dioxide is the major factor causing acid rain, but nitrogen oxide, which turns to nitric acid, is also an important contributory factor. The acid rain problem arising from the burning of fossil fuels is by now well-established. Lifeless lakes in North America and Scandinavia as well as extensive damage to forests in central Europe are among the consequences of acidification. But there is also evidence in some areas of serious damage to human health.

Reduced life

Senior Czechoslovak officials who have visited Niro atomizer have said that in some areas of Czechoslovakia, sulphur dioxide pollution has reduced life expectancy by 10 years compared with the national average. Schoolchildren in these areas have to be taken away on holidays to give them a chance to clear their lungs. The Czechs have awarded Niro a gold medal for the company's spray-drying sulphur absorption process, but they have not placed any orders for equipment, which costs in the region of U.S.$50m per power plant. "They would like to buy it, but they just can't afford it," said Mr Klaus Gude, a Niro vice-president.

Idyllic scenes such as Sövdesjön, near Ystad in Sweden, are being marred by the effects of acid rain. In Sweden alone more than 10,000 lakes are threatened by industrial pollution

Only a few countries, among them the U.S., Japan, West Germany, Holland, Sweden and Australia, have so far introduced limits to power station sulphur emissions. The UK, a major exporter of acid rain from coal burning boilers has not.

Legislation

Denmark, ironically in view of Niro's pre-eminence in the field of desulphurisation, is in the same category as the UK, but the Danish government is committed to introducing sulphur emission limits, probably through legislation to be introduced later this year.

Some countries may have been dissuaded from getting to grips with the problem by a 1981 OECD survey which estimated that it would cost U.S.$5bn to reduce sulphur dioxide emissions in Europe from 40m tonnes to 24m tonnes a year, raising energy prices in the process by about 5 per cent. Niro thinks the OECD estimate was far too high. "We could do it for half," said Mr Gude.

Niro, which has been a major force in the spray drying field since 1933, pioneered the adaptation of the technique for desulphurisation. The first industrial scale cleaner was installed in the U.S. in 1977 and the first commercial order, for a 450 MW boiler at the Antelope Valley power station in North Dakota, was placed in 1978.

Altogether Niro has now sold 13 plants (installed or on order) for power station units totalling 5,200 MW out of a total market of 7,200 MW, a 70 per cent share. Two of the orders are in Austria, the rest in the U.S.

The spray drier desulphurisation technique consists of passing the hot flue gasses through a lime slurry. Any water is evaporated and the sulphur dioxide is converted into calcium sulphite.

Alternative

The main alternative to spray drying is so-called wet scrubbing, but according to the adherents of spray drying it has important advantages over wet scrubbing. It is cheaper, both to run and in capital cost, in removing over 90 per cent of sulphur dioxide it is more efficient. "We can remove the lot if the customer is willing to pay enough," said Mr Gude. It eliminates the scaling and corrosion problems associated with the wet technique, and the waste product left over at the end has advantages over wet scrubbing.

Wet scrubbing leaves a liquid effluent which has to be disposed (the Germans pour it down the Rhine), flywash and gypsum. The spray technique eliminates the liquid effluent problem. It also eliminates the flyash problem, as this is combined with the calcium sulphite precipitate to form a cement-like substance which on exposure to damp becomes as hard as concrete.

Uses

The substance can be used as a synthetic gravel and as landfill. From an environmental point of view, the advantage of the hard product, called stabilisate, is that it binds the highly poisonous heavy metals *which are otherwise found in* the flyash. If the stabilisate is used for landfill, or otherwise dumped, the heavy metals remain where they are. In flyash, however, they are gradually washed away into the subsoil, presenting a long-term threat as a pollutant of the water table.

Ironically, Niro has found itself involved in a heated controversy with "The Greens" in Austria, with "The Greens" accusing Niro of producing a poisonous substance on the grounds that the stabilisate contains heavy metals. Niro has not yet understood why it is better to leave the heavy metals in the flyash and suspects its problems with the Austrian greens, which may emerge again if Niro wins an order in West Germany, has a non-technical background.

Only last week the question of Britain's attitude to acid rain reared its head. The Royal Society in the UK, the Norwegian Academy of Science and Letters and the Royal Swedish Academy of Sciences have agreed to begin a long-term collaboration into the causea of acidification in Norway and Sweden.

The National Coal Board and the Central Electricity Generating Board are also spending £5m over the next five years to study power station emisisons. But if British power stations were to be fitted with flue gas desulphurisation equipment it could mean investment of £4bn—a sum which the UK is reluctant to commit.

COMPUTERS

Europeans in joint R & D pact

JOHN WATSON, technical director of ICL said last week that the main reason for the formation of the Joint Research Institute (JRI) in conjunction with Siemens in Germany and Compagnie Machines Bull in France was to fend off U.S. and *Japanese competition in the* latest generation of computers and software.

Watson said that none of the three companies alone was able to justify the cost of the basic research needed for the forthcoming so-called "expert" systems implemented on large scale computers.

Expert systems are those in which the machine does not follow routine sequences to answer more or less routine *problems, but is able to embrace* a set of generalised rules and act accordingly.

In essence this means that "bodies of knowledge" can be held in a computer to give quick answers for example, to complex social security problems that are circumscribed by complex rules and regulations.

Results coming out of JRI, which will be located in Bavaria, will be freely available to all the companies. Asked if be thought this might dilute the competitive edge between the three, Watson said: "Possibly, but in general we expect to give one third and gain two thirds." He asserted: "In any event the threat does not come from other European countries but from the U.S. and Japan."

The institute will not develop products or even systems as such—that will be left to the research departments of the three member companies.

Watson saw no conflict with either the Alvey initiative or that of the EEC in its Esprit programme. Alvey was essentially a national effort by the UK, Esprit embraced the EEC countries but JRI was specific to three large computer companies. In many respects they would be complementary.

ICL refused to reveal a monetary figure for its contribution to JRI but the three *companies* will provide equal funding.

First products from ICL embracing work carried out at JRI will probably be seen in large machines running large expert systems, perhaps from 1986 onwards.

GEOFFREY CHARLISH

FINNISH BIOTECHNOLOGY

Government promotes gene technology

BY ELAINE WILLIAMS

ORION, THE largest pharmaceutical company in Finland, has become involved with a government-backed project to develop biotechnology in the country.

The company has a share in Genesit, set up in May to develop industrial applications of use of Bacillus micro-organisms. Other shareholders in the company are the State Alcholol Monopoly of Finland (Alko), the Farmos Group, Metsäliiton Teollisuus, Neste Petroleum, the state-owned oil refiner, the Finnish Sugar Company and, the Finnish Co-operative Dairies' Association.

The decision to study the potential of Recombinant DNA gene technology was taken three years ago by SITRA, the country's state funding body for research and development. It funded the first stage of work at Helsinki University.

Shareholders have put up FM 2.5m for the next two-year phase of the development. Mr Bertil Roslin, chairman of the Genesit Board and a member of SITRA, said that work was still at an early stage of development and there was still a great deal of uncertainty about the success of the work.

Mr Roslin said that the company would not set up a laboratory of its own but would function by encouraging research within institutions on subjects which would interest shareholding companies. Helsinki University's Recombinant DNA Laboratory is the first to benefit from a firm contract with Genesit.

Orion Pharmaceutical is particularly interested in broadening its product base and increasing overseas sales. The company already has 23 per cent of the market share in Finland.

Professor Ichiro Kato, of Tokyo's Waseda University, has claimed to have invented the world's first musically-talented robot. Professor Kato's robotic arm can play an electronic organ with its five fingers as skilfully as a human. The computer-controlled mechanical arm has carbon-fibre joints which can strike up to 10 keys a second. It can even perform cross-finger piano techniques.

Components

Power transistor

A TYPE of power semi-conductor known as an insulated gate transistor (IGT) has been announced by General Electric Company of the USA and is said to offer the advantages of both power MOSFETs and bipolar transistors.

In practice, this means that the device has minimum effect on any circuit that incorporates it (due to its high *input impedance*), has low power loss while it is turned on, and can be turned on and off reasonably quickly (two to four microseconds).

Initial devices will be able to carry 10 or 25 amps at 500 volts and later this year a faster device (one microsecond) will be released for higher frequency applications.

There will be important applications in variable speed motor drives and GE itself plans a "programmable motor" combining a chip computer with newly developed power circuits and a brushless DC motor. Advantages will include infinitely variable speed, reversing, improved efficiency and greater reliability.

Likely applications of such drives will include machine tool power control, robots, and industrial pumps. More from the company at Demesne, Dundalk, Ireland (010 353 42 32371).

Retailing

Bar-code light pen

A LIGHT pen for use in barcode applications has been introduced by the distribution division of Marconi Electronic Devices. The pen uses low power CMOS technology and can store 4K bytes of data. More information on 01-904 9303.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Do radicals hold the key?

Carla Rapoport looks at the background to the new-found confidence of a leading Swedish pharmaceuticals group

THE SIGN outside the door reads: Think Tank for Free Radicals. Inside, a knot of young, casually dressed people are holding a heated discussion on a radical theme. The topic, however, is not politics.

The think tank, located in a sprawling complex of modern buildings near Uppsala, Sweden, is devoted to the study of those radicals made up of oxygen. Its members believe that these tiny units of oxygen will provide the key to understanding and preventing the crippling after-effects of heart attacks and strokes.

But there is something more radical here than oxygen. This approach to fighting disease is not based on a search for new drugs, but on the study of the body's problems and how they can be naturally modified. It is en intriguing approach and one which has helped form Pharmacia, a 72-year-old company, into one of the fastest growing drug companies in Europe.

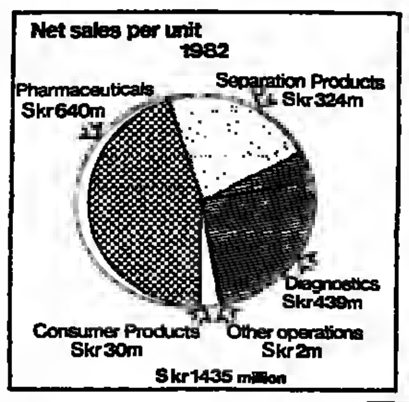
At the same time, Pharmacia's leap into the international fast lane has been aided as much by a personality as its unusual products. Gunnar Wessman, its 54-year-old president, who took over the reins of the Swedish group in 1980. An energetic man with a wide smile and a weakness for both loud and plaid jackets and reindeer meat, Wessman seems to bustle his employees into activity with a mixture of Greek philosophy, modern management theory and nnabashed cheerleading.

This week, Wessman and his colleagues are in New York to begin a new round of presentations aimed at raising about $60m through the placement of 1m new shares. This strong push for growth has scared more than a few observers in the industry who say Wessman could be gunning for a fall.

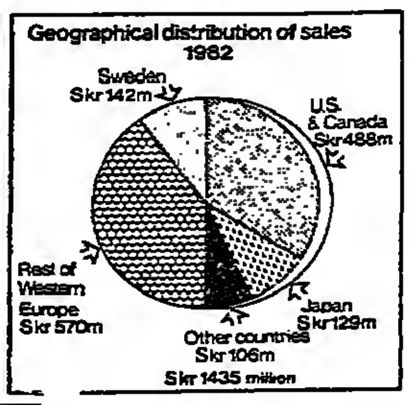
So far, the products and the man have conspired to produce some remarkable figures. In 1977, Pharmacia (then called Fortia) reported sales of SKr 701m (£59.5m) and pre-tax profits of SKr 55m (£4.6m). This year, sales are expected to top SKr 2bn (£170m), with pre-tax profits in the region of SKr 550m (£46.5m).

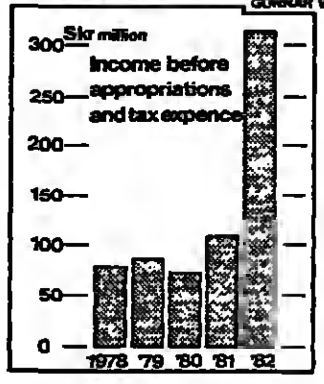
"Growth is not a problem for us," says the voluble Wessman. "Whatever projections I make, I'll be wrong, we'll be bigger, much bigger. I can't even dream what's ahead for us in terms of sales and profits."

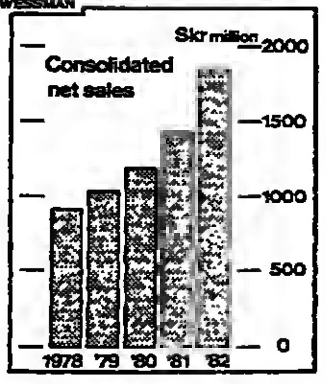
With, on the one hand, an increasing number of regulatory hoops for new drugs being introduced and, on the other, the continuing withdrawals of old drugs which cause nasty side - effects, Pharmacia's approach to disease appears to be a valuable one. The company draws on its traditional strengths in purification and diagnostic techniques to construct products which attack disease through natural means.



GUNNAR WESSMAN







For example, one of its fastest growing products today is Healon, a substance winnowed out of the combs of cockerels. Healon is so far only used by eye surgeons to simplify the removal of painful cataracts. It doesn't enter the body, it isn't a drug, yet it has heen accepted by some of the fussiest agencies in the world, and this year will have sales approaching SKr 100m worldwide.

Even so, only about a third of the company's growth from the mid-1970s to date has been achieved by products which actually act on disease and the bulk of these are still traditional pharmaceutical products.

Most of Pharmacia's recent rapid growth has heen thanks to the success of its two non-drug divisions, called separation products and diagnostics. These divisions have also provided the huilding blocks for Pharmacia's non-pharmacalogical approach to disease.

The divisions have also more than doubled their sales since 1980. Their customers are the rapidly growing biotechnology companies world-wide whose intricate research into the workings of the cell require Pharmacia's advanced separation and purification techniqnes.

According to London stockhrokers de Zoete & Bevan, Pharmacia is "the acknowledged world leader in this field." By the end of the decade, Pharmacia will be supplying an industry with a market worth an estimated $25bn, according to de Zoetes, 10 times its current value.

EUROPE'S NEW ENTREPRENEURS

Along the way, Pharmacia promises to be something of a mould-breaker for the $80bn-a-year health care industry. Where most pharmaceutical companies stick to a grey public profile and shun publicity as if it were a communicative disease, Wessman actively cultivates e high profile.

Trained as a chemical engineer, Wessman developed an interest in management and product development while working his way up a number of large Swedish companies. He served as president of Perstorp, the Swedish chemical group from 1970 to 1975 and then became president of Uddeholm, the special steels group, from 1975 to 1980.

Not a modest man, Wessman nevertheless admits that the raw materials for Pharmacia's recent growth explosion were in place before he joined the group nearly four years ago. "The distance was just too hig between exploration and exploitation. I wanted a spider to act as a liaison between the two activities, e group of researchers and marketeers who could become ahsorbed in the progress of a product as if they were religions fanatics," he says.

"If you have one big research unit and ona hig marketing unit, you don't have the same feeling abont a product," be eays. The company now bas four such groups, the most successful to date has been the Healon unit. Wessman says more will be formed this year.

Wessman says bis inspiration for his cross-divisional husiness units comes from an unusual sources. "In ancient Greece, on each little bill there was a small village. When a village became too hig for one person to talk to another across it, some people would move to the next hill. I want to make sure we can always bear each other."

That might he a tall order. Everywhere one looks around the Pharmacia offices, another building is under construction. Wessman says that a whooping SKr 1bn ($84.5m) is scheduled to be spent over the next three years on capital projects alone—another SKr 1bn is scheduled for research and development. He says this is douhle the company's previous rate of expenditure.

The growth can be controlled through other methods of management as well, he claims. A tireless reader of philosophy, sociology, and management theory, he is also an admirer of Edward De Bono, Britin's pioneer in lateral thought research. But his favourite buzz word for managing Pharmacia, is cross-fertilisation.

A recent result cf this kind of cross-fertilisation is the development of Spherex, essentially just "beads" of starch which direct volatile anti-cancer agents directly to the affected organ for concentrated therapy and then barmlessly dissolve after 10 or 15 minutes. Because of its localisation effects, Pharmacia hopes that Spherex will minimise the side effects of anti-cancer agents.

A slightly more adventurous example is Pharmacia's China Project. It has yet to he announced publicly, hut company officials confirm that the group is investigating, through its own purification techniques, the active components in Chinese herbs and potents.

"If we take as a starting point that it's not all nonsense, some of these herhs must have effects," says Wessman.

Again, he admits that the mechanisms for cross-fertilisation were in place at Pharmacin before he arrived, "hut it was never named," he says.

But Wessman's higgest contribution to Pharmacia, perhaps was his courage to take the unknown company to New York for a hadly needed fund-raising two years ago.

When Wessman joined Pharmacia in 1980, the ratio hetween long-term debt and shareholders' funds was an uncomfortable 85.4 per cent. Against the advice of some of his more conservative bankers, Wessman put together an international road show for Pharmacia in 1981 managed to pull in new funds totalling SKr 427m. The company'a equity capital expanded by some 54 per cent, from SKr 125m to SKr 197m and the debt to equity ratio neatly fell to just over 30 per cent.

This new international presence, the company's subsequent growth record and Wessman'a flair for promotion sent Pharmacia's shares soaring. Adjusting for various issues, shares in the company worth SKr 27 in 1981 are now at a staggering SKr 480. A new share placing scheduling for this autumn could dent that figure, but most hrokers doubt it.

Naturally enough, Wessman and Pharmacia have their critics. One European merchant banker who has known the company for years puts it: "They are overrated. Its not that Pharmacia as a company has changed, its the image which has changed and that image has influenced the market."

As for Wessman, the banker says: "He's a man to toss a lot of ideas around, hut not ona to make decisions. Pharmacia needs e man to arrange priorities. In his last job, be drew organisational charts, upside down and inside out and nothing happened.

Wessman doesn't play down his role as e cheerleader, or catalyst for the group. "Very often I'm the coupling agent. Perhaps that's the best contrihution I can make, to bring out the best we have, quickly, and not sit back and wait. Its not always a matter of making decisions, bnt allowing things to happen."

Shake-out among computer staff

BY ARNOLD KRANSDORFF

THE computer industry is better known for its capacity to hire rather than fire. Because of its growth pattern over the past two decades coupled with a traditional shortage of skills, demand for computer personnel has always exceeded supply.

This seller's market has bred a situation where specialist skills have always been well rewarded. Indeed, the pay scales of computer personnel have had a consistent 30-50 per cent premium above other skilled industrial eectors.

In common with other industries, whenever salaries have been restricted by legislation—as in tha mid- to late-1970s—labour turnover has been high. In the computer industry's case, it was particularly so; in 1978, for example, some categories of computer staff such as programmers and analysts had a turnover rate of more than 20 per cent.

More recently, however, with salary increases being restricted by an employer's ability to pay, rather than through legislation, individuals have been more concerned with job security than immediate financial reward. By 1982 labour turnover in most computer jobs was down substantially, some by a half.

While this continues to be the case there is now some evidence to suggest that the computer industry no longer provides the job security it once did.

Dismissals

During the period from 1978 to 1982, when labour turnover dropped substantially, the number of dismissals in the computer industry was relatively low. In only one category in 1982, for example—technical support personnel—were sacking above 10 per cent of those who left their employers.

In most categories dismissals are currently running at double the level they were at the end of last year, according to e new survey* of 35,000 computer employees working in more than 500 separate installations.

Peter Stevens, a director of Computer Economics, the research organisation which conducts the survey on a regular hasis, suggests that this could reflect the first signs of a shake-out in the computer industry.

"Part of the reason could be that there are some redundancies coming through but the more likely principal reason is that there are a lot of sub-standard peopla about and companies are encouraging them to leave," he says.

The highest level of dismissals is occurring among operations support personnel such as network controllers, hardware and planning analysts and job schedulers. While the annual rate of turnover within this category has risen slightly from 11.5 per cent to 12 per cent since the end of last year, sackings have more than douhled from 7 per cent to 16.5 per cent of this figure.

A similar pattern is evident among operations personnel responsible for the manning of computer and peripheral equipment. Among functions ranging from chief operator to junior operator the ennual rate of turnover is little changed et just under 10 per cent since the end of last year, but dismissals have jumped more than four points to almost 15 per cent of this number.

Top management is equally affected. Among function heads such as data processing managers, systems development managers and operations managers, sackings have almost doubled to 14.8 per cent of those leaving their companies. Since the end of last year turnover rates in this category have been steady et around 11.5 per cent.

The story is the same for systems personnel—those responsihle for the design, analysis and implementation of computer systems. A small overall rise in labour turnover to slightly over 14 per cent includes a dismissal rate up from 5.5 per cent to more than 11 per cent.

There are two notable exceptions to this pattern, however. Among programming aind technical support groups, the level of sackings is either little changed or greatly reduced.

Among programmers, the people responsible for designing, writing and testing computer programmes—"they are like gold dust," says Stevens—the annual turnover rate has dropped by two points to 15.6 per cent since the end of last year with dismissals steady at the relatively low level of 6.7 per cent.

* *Survey only available to participants.*

THE ARTS

Il trovatore/Manchester

Arthur Jacobs

The Royal Opera Covent Garden deserves to defeat the gloomy box office prognostications attending its visit to Manchester. By the token of Friday's opening performance this *is* international opera and a very high vocal level, with the additional interest of the Hallé Orchestra's participation under James Loughran's conducting. It is only a pily that the company's 19-year-old production of Il trovatore (originally that of Visconti, now entrusted Stephen Lawless) is now so sbabby, static aod badly lit, the soldiers in the first scene ridiculously casting buge shadows at the sky.

It is a production that lacks the physical figure and picturesque detail of comantic opera. The gypsies are not savage, warriors are not warlike. Where the characters can avoid doing anything, they avoid lt without hesitation. Even at "Di *quella pira*," where Manrico is supposedly desperate to rescue his mother from the stake, be does not seize the moment of the final chorus to don his armour but turns his back on the audience and, motionless, faces his men while they get through the musical bars allotted to them.

What overrides this is sheer vocal distinction. The little-known Giuseppe Giacomini is surely destined for the top rank of tenors. To Manrico's role be brings a beroic figure as well as a powerful, evenly controlled voice, blessedly almost free from that anticipatory slide to the next note which is the bane of the Italian style. As his rival Luna, Yury Mazuror is splendid; such a role, and not an introspective one, like Eugene Onegin, best suits this Russian baritone with his limited range of gesture and pbysical expressoin. A highly effective Azucena is given by Soviet contralto, wbose voice Irina Arkhipova, the veteran can abow suffering without *distortion* of tone. Stafford Dean makes an excellent Serrando.

That the good-looking Carol Neblett is one of the most gifted younger *sopranos had* already been made clear fcom *Lo fonciulla del West* at Covent Garden. She confirmed it as Leonora performing the rapid scales of "Di tale amor" in *act one* witb greater precision and musical beauty than many a more famous artiste. It was unfortunate that she blotted the end of her aria in the final *act, but* her participation in ensemble was thrilling. To James Loughran must be credited a well balanced, rather brisk performance of the wbole, with the Anvil Chorus taken so fast as almost to upset the choral "blacksmiths" on stage. The Hallé Orchestra's contribution was positive.

The Blue Angel/Liverpool

Michael Coveney

Andrew Sinclair's stage version of the classic Josef von Sternberg film is no more of a travesty, I suppose, than was the screenplay of Heinrich Mann's novel. Wisely deciding that no actress should risk an *impersonation* of *Marlene* Dietrich as Lola-Lola, the magnetically sexy night club singer in the Blue Angel, Mr Sinclair and the Liverpool Playhouse company have re-written the cole as an approximation of tbe black American vandeville Josephine Baker.

The other drastic, and much *less successful innovation*, is to move the action forward a few years and invest it with a fatalistic Nazi gloss in both the club and the schoolroom where Professor Roth's students are infillrated by the Hitler youth. Pin Broughton's production is set on a split-level, Expressionistic design by Andv Greenfield of jagged grev edifices, a large clock around which the street characters parade like programmed robots, and a centre-stage truck.

Somewhat tendentiously, the persecution of German Jews is equated with the disintegration of Lola-Lola's affection for the Pcofessor. But, even more disastrously, the story is drained of its elements of bizarre sexual attraction and degradatlon. Peter Jonfield is resolntely drab in the great Emil Jannings cole, and Panline Black never suggests the predatory glee behind Lola-Lola's tactics as spider to his fly.

Fcom tbe original score, only "Falling in Love Again" remains, delivered by Miss Black in a cleverly lilting, but whimsical, 3/4 arrangement finally engulfed by the march of the jackboot. The show is worth seeing, though, just for Miss Black. In the cabaret interludes she reveals a marvellous voice and comic tonch in (admittedly the wrong sort of) naughtiness with "Don't You Grab My Water Melons" and, especially, a number where, disguised as a gently plucked and stroked human 'cello, she celebrates the pleasures of vibrato.

Miss Black, formerly the lead singer with the rock band The Selector, really hits ber stride with a wonderful blnes song, belted out in a gilded cage fcom which she finally emerges with a clenched fist to drap herself over the body of strong man Mazeppa (Stuart Milligan). In between these Josephine Baker turns, there is a lot of truly dreadful sub-Wellian pasticbe composed by Jeremy Sams. The words, wben you catch them are all about a fair deal for the poor in the city of Hamburg, with much to-ing and fro-ing of a few glum, oppressed extras.

The staging throughout is dismal, perfunctory. The strange coincidence of this unlikely Lola-Lola fetching up in Hamburg is explained in a short, banal speecb well into the second act. Richard Klee as the bald, monocled club manager with the devilry of von Stroheim might have been a better idea as the Professor. As it is, the sexy, classically inverted tale of Svengali and bis Trilby, even of Higgins and his Liza, evaporates in a lot of irrelevant, simplistic brouhaha about the collapse of the Weimar Repnblic. But Pauline Black surely has a great future aa a star of the musical stage.

Midland Bank backs Rakhmaninov series

A cycle of the complete original works of Rackmaninov, presented for the first time in Britain in one series of five recitals, is to be sponsored by *Midland Bank*. The concerts, to be given by the pianist Howard Shelley, will take place at the Wigmore Hall on September 13, 20 and 27; and October 4 and 11.

The bank's contribution to this event amounts to the cost of biring tbe Wigmore Hall for the five dates.

This year is the 110th anniversary of Rachmaninov's birth and the 40th anniversary of his death.

The royal palace at Drottningholm—a pioneer of Swedisb classical design

Architecture

Colin Amery

Swedish style survives

Do you remember the old days? Do you remember wben tbe mere mention of Scandinavia, aod particularly Sweden, meant modern design? Do you remember all that bent plywood, all that etiolated glass, all tbose slubby forks and narrow knives in stainless sleel? How seriously we all took that tonching faitb in town planning, aod reoewed town centres of the 1950's and 1960's.

A recent visit to Sweden bas made me think again and see the whole architectural context *in a much less limited way. The* "new" centre of the capital, the area known as Sergels Torg and Sergelgatan wbich grew up from the mid-1950's and continued into the late 1960's, is now ooe of the least attractive parts of Stockholm. Windswept pedestrian precinicts, indifferent curtain walled office blocks, tbe institutional air of Peter Celsiog's Kulturbuset all depress rather than enliven the city.

It belps, I think, to look beyond the arid days of the post war period and see the architecture and decorative arts of Sweden as they emerged into tbe early 20th century. In Stockholm and its immediate *environs the two streams that* flow into the preseot day are clearly visible. First of all tbere is a line of distinguisbed modern classical buildings and secondly a wilder, more arts and crafts based, searcb for a 'national nordic' style. It is the old conflict of classic versus romaotic.

To locate tbe classics, look at tbe map of Stockholm and draw a line from tbe Royal Palace on the island, following the main street of Sveavagen right up to the Royal Park of Haga. Along this line you will see Tengbom's concert halls, an elegant cube of the 1920's with a stirring grey granite Corintbian colonnade. Furtber aloog is tbe public park with many *natural rock formations* on the Observatory Hill—a welcome *touch of the* picturesque. Here ts the School of Economics by Ivar Tengbom (1925-26) wilb an Italianate façade turning into an exciting curved bay tbat runs the wbole beigbt of the building to culminate in a copper "skull cap" dome.

You can sense already that Swedish 20th century public architecture has much to teach us about the gradual emergence into a new style without the wholesale rejection of the past. Next door to the School of Economics is the key building in this saga, the Stockholm City Library, designed in 1920 by Gunnar Asplund. The drum and dome of tbis building rise above the simple base; it is classical without ornament, closer to Egypt than Rome.

Take the classical journey on to Haga and you step back to one of the finest 18th century *landscape parks* in *Europe. This* is full of things of star quality—beautifully restored and maintained. You have never seen anything like the great copper tents painted to imitate canvas that are attached to the former barracks and stables. Tbe pavilion built in 1787 for King Gustav III is one of the most brilliant restorations I have seen. Working from a cache of drawings left by Louis Mazreliez the feeling today is very close to a purely 18th century interior.

The restorations do not *stop* at careful execution of the wall paintings but include the simple minor rooms with their ticking slip covered furniture—brilliantly understated and untouched by the hands of modern decorators—please take a note National Trust!

Sweden in the 18th century is also perfectly represented at Drottningholm — the Royal Palace a short boat ride from the city. While no one should miss the Chinese pavilion, or another tent for the Corps de Garde, it *is* the *theatre* — an intact vision of the 1760s—that *again has been restored and is* used with such tact and care. Tbeatre sets by Carlo Bibiena, used on my visit for a pcoduction of *Lo Cenerentola*, are stunningly effective, simple and full of lessons for the often illiterate sets designed for Covent Garden.

The other design stream is the Swedish Romantic style that reaches its apotheosis in the City Hall at Stockholm. This is towered nordic splendour, created by Ragnar Ostberg from 1911 to 1923. It is less *wild than the exterior* of the Engelbrecht church built a little earlier by L. I. Wahlman up in the diplomatic enclave of Stockholm.

The Romantic style whicb is to be seen all over Stockholm, even wben you post a letter in tbe main post office, depended on highly developed craftsmanship and a sympathy for the return of mylhic qualities to 20th century arcbitecture.

It is the rational, and slurdy neo-classical architecture that offers us inspiration for the present. Fortunately in Sweden tbere is plenty of it left — and, if the treatment of the palaces and the old town of Stockholm is anything to go by, there is a *new and positive respect for* the past. Certain qualities stand out in Sweden today that are worth any architect pondering. There is an nnderstanding of simple elegance — painted 18th century furniture, shops full of inexpensive simple cotton fabrics in perfect taste, an understanding of the importance of the skyline, tbe use of water, an awareness of the colours of nature, and tbe importance of light.

Despile the horrors perpetrated in parts of the city in the recent past, Stockholm, unlike London, still bas the air of a city that has been designed to *look* right. Red oxide, brown, wbite and ochre facades witb copper domes and spires make for a sense of a harmony.

The Madness/Upstream

B. A. Young

The Madness turns out to be Tennyson's *Maud*, but in a shape *that will* dispel any *illusions*, based on "Go not, bappy day" and "Come into the garden, Maud," that it is a sentimental poem. As spoken, and acted, by Kenneth Branagh, its macabre quality as a drama of madness and death is revealed in stark colours. Very briefly, the poem tells of a young man's love for a girl inaccessibly above his station, his *killing* of ber brother in a duel and his flight, first to France and then to serve in the Crimea.

We begin witb a whistling scream as the young man throws himself down in the "dreadful hollow," and Mr Braoagh coo-tinnes for a bour and 20 minutes at fnll passion. He breaks up the rhythms by inserting conversational pauses and hesitations into the lines ,so that when a rhyme comes it seems only by chance. It is a remarkable performance. What be bas set *himself* to do, he bas done notably well; but I'm not sure that it is always the right thing.

Tennyson's varied rhythms may seem rinky-tink if spoken withoot subtlety, but *they are* the result of carefully made sentences wbose rbythm emerges naturally when they are spoken normally. Mr Branagh's Macready pauses are often no more than rhythm-brokers, interposed at places where no natural pause is justifiable, so that they sound like the kind of pauses made wben reading from a strange script. I'd go further and say that by cracking the rhythms, Mr Branagh is destroying his own work, which is to present a great (and I mean great) poem, not a play. I found it interesting that when, in the "Come into the garden" lyric, he allowed the rbythms to show a little more, the effect of the speaking was better.

All the same, this is an interesting venture. If I may offer ooe further niggle, it is that when the birds in the high hall garden called "Maud, Maud, Maud," they didn't do it in the treble clef. They were rooks.

Fennimore and Gerda/Edinburgh

Max Loppert

The second Edinburgh Festival offering of Opera Theater of St Louis was a production by Frank Corsaro ol Delius's last opera. The choice was unexpected and—whatever one might bave felt about the result—wholly admtrable in its conviction: with love, intelligence, and considerable skill, Opera Theater have tried to make a go of an opera previously dismissed as hopelessly unworkable, on dramaturgical if not on musical grounds. This, surely, is what festival opera should be about.

From a couple of key incidents in the novel *Niels Lyhne* by the Dane Jens Peter Jacobsen, Delius extracted a libretto in what he called "11 pictures," linked by orchestral interludes and played without break (except for pauses) for 90 minutes. Its awkwardnesses are easily deduced. The basic triangle—heroine Fennimore and the two friends, painter Erik and poet Niels, the first of whom descends after marriage into drunkenness and despair, the second later to become her lover—is of the paltriest interest as it reaches the audience member via Delius's clumsy, discontinuous dramatisation. And none of the characters, not even dissolute Erik, takes on theatrical life — especially as Delius's vocal lines, unlike *his* instrumental, seem to possess (especially in Philip Heseltine's translation from the original German) almost "no feeling whatever for the music of words," to borrow Eric Fenby's unflinching phrase.

Corsaro's solution is a radical one. The stage, gauze-fronted, becomes a vehicle for the projection of nature images — leaves, water, town and country sceoes, all kaleidoscopically patterned in Rooald Chase's artful film sequences — out of which the play of characters emerges with carefully graded intensity. No doubt the mixture worked to more hypnotic effect in tbe company's bome theatre, equipped as it is with a thrust stage; in the King's, individual ingredients sometimes threatened to separate out distractingly.

A stronger objection to the *production style, with its added* soundscapes of recorded wave and storm, might be that unintentionally it emphasises the qualities ol Delius's music on which Hollywood soundtrack merchants were later to draw so beavily — his bouts of winding sweetness, hardly varied in pace and drawn out to near-soporific lengths. Certainly, it was dangerously easy at times to sink torpidly into one's chair and succumb to the experience in a mindless way that one imagines the creator would hardly have welcomed.

But of tbe sincerity or commitment behind the attempt there could be no doubt, nor, on its own terms, of its accomplishment. Christopher Keene's conducting of the Scottish Chamber Orchestra was eloquent: *finely sympathetic* in shaping the movement of Delius's harmonies, alert to the details of scoring (the falling oboe phrases, the sumptuous weave ol low strings) that come to charm the ear. And the cast was uniformly well chosen. Apart from a tendency to force at high climaxes, Kailryn Bouleyn's Fennimore disclosed a lustrons soprano and, as actress, a perceptive sense of how not to overburden the role with unwarranted melodrama.

David Bankston (Erik) and Stephen Dickson (Niels) were no less astute — Mr Dickson, a well-remembered Glyndebourne Papageno, has one of those warm, easily produced, youthful lyric baritones in which bis country seems so unfairly rich. As young Gerda, who in the final picture steps from nowhere to provide Niels and the opera with a curious bappy ending, Kathryn Gamberoni made an effect of winning brightness out of very little.

A Moon for the Misbegotten/Mermaid

B. A. Young

This was the last play O'Neill completed, in 1943, before Parkinson's Disease ended his writing career. He wasn't pleased witb it ("I loathe the play," he said only 10 years later) but this may have been due to the family recollections contained in it more than to any feeling of dramatic inadequacy. The unlikeable hero, Jim Tyrone, is the eldest son of James Tyrone in *A Long Day's Journey into Night* and so, by implication, Eugene O'Neill's elder beother. The Tyrone parents are now dead and Jim is filling in the time until be gets his legacy with drinking and whoring.

One woman for whom he possibly has a real affection is the daughter of a tenant farmer on the Tyrone estate, Josie Hogan. She is an unplayable character as O'Neill visualised her, six feet tall and weighing a hundred and eighty pounds. Frances de la Tour, physically nothing like this, suggests in a glorious performance exactly the kind of woman Josie was, a rough, cunning, ugly, sentimental Irish American, 'a great big ugly cow of a woman,' in be own words. When near the end of the evening she runs to Jim with ber arms outstretched to embrace him, it is like looking at the love life of a scarecrow.

Josie's falher Phil is a talking, drinking Irish meat-farmer, excellently played by Alan Devlin. He believes that Jim has sold the farm over his head to a neighbouring millionaire, Harder (all these characters are based on real people). If he can manage to catch Jim in bed witb Josie, he can blackmail him into cancelling the sale. As it happens, Josie would like nothing better than to get Jim into bed, and the long stretcb of the *middle* of the play is full of tension as the seduction swings this way and that, always under tbe threat of Phil's return from the inn, witb a witness to confirm what he hopes to see.

Jim is played by Ian Bannen, a moving performance that would be even hetter if he would distinguish more aptly between passion and resonance. The millionaire has one short scene, a slim, elegant young man who, as Ronald Fernee plays him, is at least humiliated with a touch of style. There is also a sbort, almost irrelevant scene at the beginning when Josie's beother Mike (Mark Knox) decides to leave the farm and seek a fortune somewhere more exciting.

David Leveaux's direction keeps O'Neill's long and sometimes repetitive periods free of tedinm, and the log-cabin of Brien Vahey's design is properly atmospheric. This rare play, so admirably acted, brings light into the sad evening of the Mermaid.

Liverpool Philharmonic/Albert Hall

David Murray

David Atherton conducted most of the Royal Liverpool Philharmonic's Prom on Friday, but be relinquished the baton lo *Howard Williams* for Edward Cowie's recent Concerto for Orchestra—Williams had made a fine job of its première last year. Inspired by Leonardo's *wave-and-current drawings, its* single movemeot bears the further beading "Studies in the movement of waler." Again its multi-level billows and eddies *held* one's attention wilh proud confidence; with the different music assigned to the four orchestral groups constantly overlapping, the sound might easily be cloted, but io fact it is quite transparent and bracing.

In one sense it resembles a Heath Robinson construction: the individual elements are of familiar kinds (urgently neo-romantic, Tippett-visionary — well-tried sonorities), but made to run together in new, unforeseen ways. On a similar plan Cowie's 1977 Piano Concerto seemed contrived and stiff-jointed, but the sheer toppliog onrush of the orchestral Concerto is irresistible. Not a momeot is wasted, and tbe calculatedly bewitching play of timbres *is a professional tour de force*. If the large-scale ambition—lo make audible a Goethean "metamorphosis"—turns out on further acquaintance to prevail over tbe local colour, the Concerto will make a home for itself in the repertoire.

The rest of the concert con*sisted of Elgar's "Cockaigne"* Overture and the quintessential Holst, *Egdon Heath*—bolb carefully sympathetic, a bit over-literal and prosale, slightly foxed by small fluffs—and the Brabms Double Concerto. That was a performance of anolher order: Atherton's tough-minded directness (and his knack with the winds) answered Brahm's needs admirably, and he had a aplendid solo pair in György *Pauk* aod *Ralph Kirshbaum*. Spiced with a touch of surface contrast — aristocratic *poise versus* overt commitment—their partnership was deeply unanimous, and their playing a pure musical pleasure. Why did anybody ever think this work "dry"?

Maiting premiere for jazz composition

The first performance of Mike Westbrook's *The Young Person's Guide to the Jazz Orchestra*, will be given at Snape Maltings Concert Hall on Sunday October 2 at 3 pm.

Commissioned by the Aldeburgh Festival-Snape Maltings Foundation, the composition will be premiered as part of the celebrations for the 70th anniversary of the birth of Benjamin Britten, composer of the original *Young Person's Guide* to the *Orchestra*. Westbrook's work is the first non-classical piece to be commissioned by the foundation. It will be performed by the Mike Westbrook Orchestra.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

September 9-15

LONDON

Royal Albert Hall: The Prom seasoo nears its close on Saturday September 17 with the following concerts: Zubin Mehta conducts the Israel Philharmonic Orchestra with the BBC Chorus und Tiffin School Boys Choir in a performance of Mahler's Symphony No 3 with soloist Florence Quivar (Mon). John Ogden plays Liszt's Piano Concerto No 1 with the BBC Scottish Symphony Orchestra conducted by George Hurst in o concert iocluding Beethoven's *Pastoral Symphony* and Hindemith'a Mathis der Maler Symphony (Tues). Oo Wednesday, Andrzej Panufnik conducts his own Sinfonia Votiva as part of o programme including Tchaikovsky, Chopin and Scriabin conducted by Norman Del Mar with the BBC Symphony Orchestra and pianist Philip Fowke; Thursday sees the BBC Welsh Symphony Orchestra under the baton of Erich Bergel with a programme of Enesco, Rimsky-Korsakov and Janis Vakarelis playing Liszt's Piano Concerto No 2. (589 8212).

Royal Philharmonic Orchestra, conductor Andrew Litton, pianist Howard Shelley: Mussorgsky, Rachmaninov, Schubert. Barbican Hall (Tue) (638 8891).

Renata Scotto sings in a concert performance of Adriana Lecouvreur by Francesco Cilea with the London Symphony Orchestra conducted by Elio Boncompagni. Barbican Hall (Wed) (638 8891)

English Chamber Orchestra, José-Luis Garcia (conductor/violin): Bach, Mozart, Vivaldi. Barbican Hall (Thurs) (638 8891).

PARIS

Paul Kuentz Choir and Orchestra with Monique Frasca-Colombier, Violin, Sophie Kuentz, Violin, Michel Giboureau, oboe: Bach's Violin Concertos (Tue 9pm) Saint-Severin Church (563 7480).

Israeli Philharmonic Orchestra conducted by Zubin Mebta with Schlom Miotz, violin, in a gala concert in profit of cancer research; Beethoven: Overture No 3 "Leonora", Violin Concerto, Symphony No 7 (Tue 8.30pm) Théâtre des Champs Elysées (723 4777).

Israeli Philharmonic Orchestra conducted by Zubin Mebta: Mozart, Berg, Brahms (Wed 8.30pm) TMP-Châtelet (261 1983).

NEW YORK

New York Philharmonic (Avery Fisher Hall): *Rafael Kubelik* conducting. Schumann, Beethoven (Thur). Lincoln Center (874 2424).

WASHINGTON

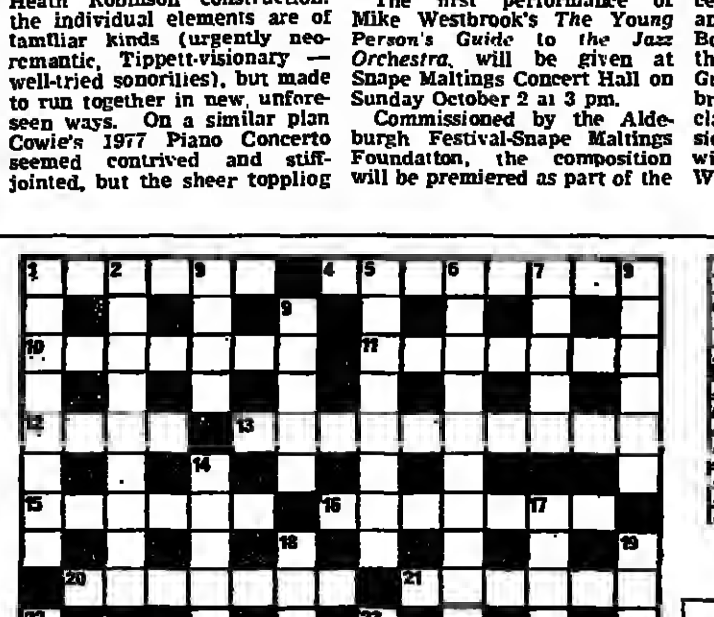
National Symphony (Concert Hall): The oew seasoo opens with Maestro Rostropovich conducting with Glenda Maurice, Mezzosoprano, in a programme of Carter, Wagner, and Sibelius (Tue, Wed, Thur). Kennedy Center (254 3776).

WEST GERMANY

Berlin Opera: Lieder recital with Teresa Berganza accompanied at the piano by Juan Antonio Álvarez Parejo: Vivaldi, Brahms, Faure and Respighi. (Tues)

Berlin Philharmonie: This year's 33rd Berlin Festival runs from Sept 1 to *Oct 2*. The second week of performances opens with the Berlin Philharmonic Orchestra and pianist Alfred Brendel conducted by Dennis Russell Davies playing Beethoven's Third Piano Coocerto and First Symphony (Sat). 'Die Junge Deutsche Philharmonie' conducted by Gary Bertini accompanied by the Rias Kammerchor offers Beethoven, Webern, Schöoberg and Brahms (Sun). The famous piano duo Christoph Eschenbach and Justus Frantz continue the programme with Brahms and Haydn (Tues); Berlin's Symphony Orchestra conducted by Daniel Nazareth closes the week (Thurs) with Ravel, Paganini and Skryabin.

F.T. CROSSWORD PUZZLE No. 5,214



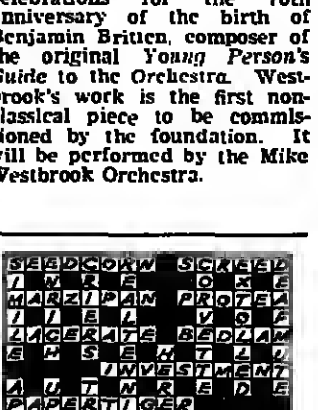
ACROSS

1 Riches gained by breaking the law (6)
4 Fruit no good for a pudding (4, 4)
10 Film with a good finish (7)
11 Could be an opera lover's favourite form of transit (7)
12 Offensive row (4)
13 These areas can be made to bloom (6-4)
15 Strangely silent recruit (6)
16 Prison gets revolutionary excited (7)
20 Cyclopean but insignificant (3-4)
21 Fisberman shows displeasure when lake is filled in (6)
24 Job taken up by a tenant (10)
26 A duck egg blue (4)
28 He votes for a European king (7)
29 Exciting feeling (7)
30 Some days are different for dogs (8)
31 Hasten to provide foreign capital (6)

DOWN

1 and 22 down: Top-grade yarns obtained from slovenly weaver (8, 6)
2 It's *released when one is* agitated and in real trouble (9)
3 Dog-end (4)
5 A letter I composed is well expressed (8)
6 Sea water in one's watch (10)
7 It's very much used as a *prefix* (5)
8 Fire-escape on board ship (6)
9 Such music is not bound to sell (5)
14 Medical service for which the pay's too uncertain (10)
17 Inelegant wild flower (9)
18 Shakesperian clown, blushing, was rotten (8)
19 Their money may be well-earned (8)
22 See 1 down
23 He may stand up for another's rights (5)
25 Best substitute for shaving soap (5)
27 Gun may be mounted (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.



Solution to Puzzle No. 5,212

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

Monday September 12 1983

Reform in the City

DECISIONS taken in the next few months will determine the long term shape of the British securities industry. The agreement to dismantle the system of minimum commissions on the London Stock Exchange has profound implications not just for exchange memhers, hut for all users of the City capital markets.

This is hecanse of the strong links that exist between a minimum scale of commissions and the way the London market is divided between agents—the hrokers—and merket makers—the johhers. This so-called sepersiion of capacity is the cornerstone of investor protection in the UK.

Single capacity is alreedy coming under strain as a result of the increaaingly international character of the world's capital markets. A U.S. investment hank, which comhines the role of agent and principel under one roof, has a distinct advantege when competing for business against e London hroker.

These pressures will become much more intense once London hrokers start to compete with each other on price as well as on service. They will be looking for ways to offset the ensuing declines in margins on their agency income. And in order to aecure husiness, some of the higger firms will want to use their capital to huy securities on their own account.

In the face of strong commercial pressures, the Bank of England would find it very difficult to maintain single capacity simply by exerting its moral euthority. Legislation would be et least as tricky. It would he undesirahle to give the Stock Exchange a statutory monopoly, and imprectical to impose statutes on international firms trading away from the floor of the exchange. The Secretary of State for Trade and Industry seemed to recognise the prohlem when he said that single capacity ahould he preserved "at least for the time being."

So member firms now have to work on the assumption that the separation of capacity could disappear within, say, five years. The complicated system of dealing in international securities, which was estsblished after the removal of exchange controls in 1979, is likely to go much sooner than that.

The problem is that market makers need a much larger capital hase than an agency business, because they have to take much greater risks. With everyone looking over their shoulder to see who might move first, there are now two key questions. What are the potential sources of new capital, and how will changes be phased in?

The merchant banks are one possihle source of capital. In an increasingly competitive world they may feel they could make use of the distribution network that would be provided hy a broker. A clearing bank could also decide to diversify its financial services in this direction. And then there are the hig international investment hanks, which are vigorously expanding their presence in London.

As for the timetable, a number of very important issues have to he resolved before any radical change in the structure of the market can be permitted. These include the implications for investor protection, and for the smooth working of the gilt-edged market. There is also the queation of the national character of the market, since the hig U.S. investment hanks could huy most UK hroking firms out of their petty cash. Whereas Merrill Lynch has net essets of well over $1.25hn, a stake of 29.9 per cent in Hoare Govett, one of the leading British firms, was sold last year for less than £10m.

However, there sre obvious dangers in holding back for too long. If change is seen to be inevitable, lengthy delays will weaken those who try to resist it. There are risks, too, in the proposal to reduce commissions by atsges, rather than in one fell swoop. This could introduce serious distortions into the market place, and penalise the more efficient firms.

While feeling very uneasy about the Government's decision to frustrete the proceedings of restrictive practices legislation by settling with the Stock Exchange out of court —there is already far too mucb ministerial discretion in British competition policy—we accept that the Government has an important interest in the structure of the London capital market. The delay and uncertainty involved in court proceedings were a legitimate cause for concern.

However It must be recognised that commercial pressures seem bound to ensure that the proposed settlement will not he the final solution. Tha challenge now is to decide how best to meet these pressures. The Stock Exchange plays a vital role In the economy, and It is to ba hoped that all those who use it will join an open debate about its future.

The Japanese dilemma

JAPAN IS headed into a renewed period of overflowing current account surpluses and the attendant risk of increasingly acrimonious disputes with its less successful trading partners. The obvious reasons for this state of affairs are sufficiently well known: the prowess of Japanese manufacturers and a less than generous attitude to imports. The former will have to be accepted as a fact of life and a challenge to do as well; the latter is something that the Japanese have begun to recognise without doing as much ehout it as others might wish.

But in addition there are e number of other influences at work, principally the weekness of the yen which hea persisted for a good two years. On the strength of official Japanese estimates one may guess that last year's decline of the yen against the U.S. dollar will frustrate roughly $5.7bn (£3.8bn) worth of Imports that would otherwise have flowed Into Japan this year. Add to that $6.5bn saved because oil prices heve fallen, aod the resulting $12.2hn roughly matches the improvement of the current account from a surplua of $6.9bn In 1982 to the $18bn which the OECD expects this year.

Risk

Part of the reason for the weakness of the yen is heavy exports of long-term capital. These are an entirely welcome and classic corrective to the current surplus. But net outflows of what, et least nominally, is short-term capital are a good deal more problematical. Such outflows have been encouraged hy the high retes obtainable in the U.S. which have caused prohlems in Europe no less than in Japan. Plainly, the primary responsihility for finding a remedy to this difficulty does not rest on the Japanese.

Holding up interest rates in order to protect thet yan has the undesirahle side effect of hampering the expansion of the domestic economy which has begun very tentatively. Investment in the private sector and consumption are both flet, thus removing a possihle source of increased import demand.

In order to correct this, a cut of personal income-taxes is planned before the end of the financial year in March 1984. Its extent is still being argued about hy various government agencies.

Unlike the difficulties associated with ahort-term interest rates this is a dilemma of Japan'a own making. Traditionally Japanese Finance Ministers rely heavily on the issue of domestic honds to meet their hills.

Considerations

It is the intention of the Japanese Government to run down the need for such borrowing during the rest of this decade. Yet at the same time it is reluctant to increase the burden of taxation, at present no mora than 26 per cent of GNP compared with 30 per cent in the U.S. and 39 per cent in Britain. Some form of prestidigitation will be needed if those two objectives are to be reconciled.

These are considerations for the longer run. More immediately It is gratifying that Mr Yasuhiro Nakasone, the Prime Minister, has recognised the need to foster imports into a country which has proved difficult to penetrate with foreign goods other than raw materials. It has proved a difficult road so far with painfully slow progress.

Ha is likely to have e "welcome" present for President Reagan when he reaches Tokyo in Novemher in the form of a measure of liheralisation of agricultural imports. In addition measures are under consideration which would offer tax incentives to Importers —

Unbappily none of this sounds sufficient to quell protectioniat pressures in Japan's competitor countries, always provided that the world economy does not take off more steeply than expected. The rest of the world might as well realise that the Japanese challenge and Japanese awkwardness will remain with us for many a year.

PERSONAL COMPUTERS

The big battalions take over

By Guy de Jonquieres in London and Louise Kehoe in California

THE world's most precocious industry is approaching adolescence. After five years of heady growth, during which worldwide sales have soared to more than $8bn and countless entrepreneurs have made their fortunes, personal computer manufacturers are facing up to the sobering challenge of managing their long-term survival.

The market for personal computers continues to expand extremely rapidly. But It is no longer the guaranteed ticket to Eldorado which it aeemed only two or three years ago. Opportunities to huild a multi-million dollar business from a hack garage ere getting rarer (though they still exist), and the market has shown that it can he brutally unforgiving to those who take auccess for granted.

The risks have heen underlined by the recent U.S. price war in cheaper home and video-game computers, which has inflicted heavy losses on market leaders such as Atari, Mattel and Texas Instruments. The latter bas cut the price of one of Its machines to $100 from more than $1,150 In only four years, while Timex, which makes British Sinclair computers under licence, has hed difficulty winning American customers even after marking its products down to $30 from $100.

Though price-cutting on this side of the Atlantic bas heen less severe so far, some of the fizz is going out of Britain's home-grown personal computer industry, the biggest in Western Europe. One manufacturer, Grundy Business Systems Is in liquidation, while another Dragon Data, had to be rescued earlier this month from casb flow prohlems after a sharp drop in sales.

"Price cutting is going to wipe out a lot of amaller suppliers," says Mr Chris Curry, managing director of Britain's Acorn Computers, which makes the BBC microcomputer. But he is confident about the prospects for his own four-year-old company, which bas built up an annual turnover of £42m by specialising in selling computers for use in schools. It recently launched a less expensive model and plans an assault on the education market in the U.S.

Acorn was fortunate in being one of the few manufacturers whose products were approved by the Government for classroom use. That has provided the company with a direct route to a well-defined market and enabled it to huild up volume production quickly and develop a range of software, the all-important programs which equip computers tn do useful tasks.

Exploiting such market niches can give young personal computer companies a vital leg-up in their early stages. But the promising newcomer which does not move fast to huild a broader husiness hase to secure economies of scale can soon become yesterday'a faded star. For the tide in the industry seems to he turning decisively in favour of the big battalions which combine low-cost production with marketing muscle.

Until now, the personal computer market—which extends from cheap game machines to professional and husiness computers costing $5,000 or more —has developed in conditions of exuherant anarchy. Every manufacturer has jealously sought to make its products different from those of its competitors in the belief that its customers, ooce locked into its specifications, would stay loyal for life.

With literally hundreds of companies competing worldwide, sucb individualism has sown confusion among customers who have been confronted with a hewildering array of incompatible equipment and software designed to work with only one type of machine.

In the U.S., which is by far the largest and most aggressively competitive computer market, the industry is seeking to bring order to its self-inflicted chaos. What is needed, most American manufacturers believe, is agreement on common technical standards which will end the proliferation of what Mr Dan Ross, vice-president of Timex, calls "kamikaze computers."

Almost fortuitously, that standard is now heing enforced at the more expensive "business" end of the market hy International Business Machines, the world'a largest computer manufacturer. IBM's personal computer (PC) has sold phenomenally well in the U.S. since it was launched there two years ago. IBM is expected to make more than 500,000 PCs this year and is estimated to bave captured more than 20 per cent of sales of machines costing more than $1,000.

Its success is a triumph of skilled marketing. "There Is nothing innovative about the IBM PC," says a competitor. "It is not a particularly good machine hut it is adequate and, more important, it is IBM." It is also relatively expensive.

The response to Its PC has far exceeded even IBM's own expectations. Though it is adding production capacity as fast as it can, U.S. dealers are fighting to get hold of the machines and the waiting list for deliveries is currently running at about seven weeks.

As well as being a formidahle competitor, IBM is widely regarded as erbiter of the industry's future development. By hreaking with tradition and publishing the detailed specifications of its machine, IBM has actively encouraged other companies to belp establish it as a *de facto* standard.

Many have been only too happy to oblige. At least a dozen U.S. companies have sprung up to cash in on the shortage by making "compatible" machines which can use IBM software. Some are competing directly with the PC, while others are making versions wbich offer higher performance or are easily portahle. A number of Japanese manufacturers — which have so far had very mixed success in penetrating personal computer markets in the West — are also aligning themselves with the IBM standard.

Smaller American manufacturers which do not meet the IBM standard are rushing to conform. Even Apple, the Californian company widely regarded as tha pioneer of personal computing and still a market leader, is modifying its policy of exclusive product design. It now plans to offer oo its new Lisa computer the same operating system (the program which controls a computer'a internal functions) as IBM uses.

IBM is expected to launch in the U.S. in the next few weeks a homa computer costing less than $1,000 and code-named "Peanut." Though little is known about its design, it promises to be a smash hit. Guessing its vital statistics has become almost a national pastime, and many computer atores are keeping waiting lists of customers who want to huy it, whatever it turns out to he.

Many industry watchers expect Peanut to meet the growing demand for machines designed to perform husiness tasks in the home and to be aimed at the best-selling Apple II. Though its share price fell sharply last week on stock market fears about its future profits Apple is probahly still strong enough to meet the challenge. But other manufacturers less ahle to match IBM's low-cost mass production may well have their margins badly squeezed. Direct IBM-compatible imitators are expected to be particularly vulnerahle once IBM catches np with demand and can turn its fire on the competition.

IBM has, bowever, had much less impact in Western Europe, wbere it started selling its personal computer only late last year. By the middle of this year, it had shipped 4,100 machines or 5 per cent of all deliveries, according to Mr Miles Thistlethwaite of Inteco, a London market researcb company.

He expects IBM's share to rise to as much as 15 per cent by year-end but doubts that the company will take the market by storm as It has in the U.S. "The American bandwagon phenomenon doesn't happen here, and the European market is in any case fer less volatile than it was two or three years ago," he says.

IBM, which is making its PC at its plants in Greenock, Scotland, is a latecomer to Europe, where the market for business-type personal computers is only a quarter the size of the U.S. Othar American manufacturers, including Apple, Commodore and Sirius are already well-entrenched. There is also increasingly stiff competition from large indigenous companies, such as Olivetti nf Italy and West Germany's Triumph-Adler, which are particularly well positioned on their home ground.

Moreover, the market is splintered along national boundaries. As Mr Kaspar Cassani, president of IBM Europe, said recently: "For the personal computer, there is no such thing as a homogeneous European market." Hence there Is less scope nr incentive for the industry to coalesce around a common atandard—be it IBM's or anyone else's.

In Europe, the companies which have tended to do best have heen those which have aecured the most effective distribution channels (which vary considerahly between countries). Though high-street stores such as W. H. Smith and Dixons in Britain have started to stock less expensive personal computers, Europe lacks the highly efficient, mass-distribution system available in the U.S. through thousands of independant computer stores and retail chains sucb as Sears.

This favours established office equipment manufacturers such as Olivetti and Triumph-Adler which already have their own sales forces and strong links with distrihutors. It also explains why Sinclair Research, Europe's biggest bome computer company, first broke into the market by using mail order.

Mr Simon Pearce, of electronics research firm IDC Europa, foresees an eventual shake-out which will result in fewer, bigger, European distributors. That is likely to tip the scales still further in favour of the higger, low-cost manufacturers whicb can supply in volume.

Does that spell doom for the small entrepreneur? "There are still chances for new entrants to be successful in a big way, but for a newcomer to achieve the status of a Commodore or an Apple will be highly unlikely," according to Mr Pearce. "Once the fall-out begins, it will be bloody and miserahle for most, very rewarding for the few that survive."

SINCLAIR'S NEXT STEP

Sir Clive Sinclair, whose public image is a mixture of master magician and guru of the post-industrial age, is preparing to pull another trick out of the hat. Characteristically, it will challenge conventional wisdom in the rest nf the personal computer industry.

His first product, the ZX-80, went on sale three years ago at what then seemed the impossihly low price of £100, and opened up a market which much bigger competitors had ignored. His company, Sinclair Research, has since sold more than 1.5m machines and recently reported sharply increased profits and turnover.

His next personal compnter, the ZX-84, is dne out in the first half of next year, and will be aimed at mnch the same husiness-in-the-home market as IBM's Peanut. Bnt Sir Clive does not plan to join what he calls the "gadarene swine" stampede hy U.S. manufecturers to make IBM-compatible prodncts. Instead, he plans to create his own standard.

He reasons that Sinclair Besearch lacks the manufacturing and marketing strength to tackle IBM head-on. So he plans to huild on its repntation for innovative design and the availahility of large amounts of software written for its products.

"Our new machine will have performance features which will pnt it very much ahead of the competition," he promises. It will cost between £400 and £2,000 and will he backed hy sophisticated new software packages for word processing and financial planning. Initially, at least, it will not incorporate the miniature flat display screen fitted to the pocket television which Sinclair will launch this week.

Sir Clive will not say wbether the ZX-84 will, like his other computers, be made at the Timex factory in Dundee, Scotland. He says he is determined to reclaim a share of tha market in the U.S. hnt has not yet decided whether Timex will make the ZX-84 under licence there.

He insists that the recent slump in U.S. sales of Sinclair machines was not Timex'a fanlt hnt hlames Texas Instruments for ruining the market hy price cutting. "Those cowboys from Texas—yon'd think they'd have learned something by now," he says. But though Sinclair's royalty income from his computers made hy Timex in the U.S. is down sharply this year, he is philosophical: "Had we not been shielded hy Timex in the States, we would have suffered a really grave loss."

Men & Matters

Tomorrow's world

My attempt to learn from Lord Weinstock exactly what he is planning to say in his opening address to the prime minister'a all-day seminar on innovation today at Lancaster House was hriskly turned down.

But he had good reason. Later I learned that, such is the gravity of the occasion In Mrs Thatchers eyes, she has asked her 16 nominated speakers from amoogthe ranks of the great, the good, and the inventive, not to disclose in edvance what they are preparing themselves to say to the 250 invited guests on the suhject of Britain's short-comings In the matter of turning good ideas into national wealth.

Recently sbe has held a series of small gatherings at 10 Downing Street inviting inventors, designers, and entrepreneurs. Now the matter of making money from science is moving to a bigger forum—perfect timing in the Government's view with Parliament shortly to reconvene, and modest economic recovery under way.

Today's speakers read like a Who's Who of success in the private sector—Lord Weinstock, John Harvey-Jones, Sir Clive Sinclair, Keith Duckworth, Lord Caldecote, and Michael Heseltine.

Electronics is well represented. But if the conference has e weakness it is that biotechnology is taking a back seat.

So determined was the PM's office to exclude the state aector that even the energetic entrepreneur who created the hiotechnology success Celltech was excluded. Gerry Fairtlough dreemed up bis fast-moving rival to the U.S. hiotechnology industry while working with the National Enterprise Board. The Government is one of his shareholders.

It might have heen a good idee on the PM's part to have invited Lord Rithschild to talk about the hooming hiotecb husiness. His trust, Biotechnology Investments, is now setting a cracking pace aa Its latest annual report shows, in spita of following the strict investment criteria he laid down.

Mine and sign

While Arthur Scargill, president of the National Union of Mineworkers, and "king" of the Yorkshire coalfield, is no friend of capitalism that sad rift is not deterring the forces of capitalism from trying to woo Scargill's suhjects.

Seven hanks and the National Giro ere launching a campaign to persuade the 60,000 Yorkshire coalfield men to be paid througb bank accounts.

A series of posters, highlighting the benefits of credit transfer in cartoon form, are to be displayed at pits and depots over the next three months. The banks participating are NatWest, Barcleys, Lloyds, TSB, Yorkshire, Williams and Glyn, and the Co-op.

But the hanks are emphasising that a miner need never be without the price of a pint. They are promising that cash dispensers will offer a 24-hour a dey aervice.

Collect call

John Webster, managing director of the Nottingham Building Society, established a "first" recently by providing the world'a first home hanking service so that customers can run their personal and family finances through their domestic TV sets.

This week he starts a world tour taking in South Africa, Australia, and the Far East, to demonstrate the system to other interested authorities and institutions. He hopes to pick up some useful royalties bv licensing tha software.

Meanwhile, Carol Scott, his marketing servicea manager, waa provided with air tickets in something of a rush to go down the route ahead and make sura that everything was ready for the demos.

Arriving in Hong Kong a guilty thooght penetrated her jetlag. She had not paid her electricity hill in faraway Nottingham.

She connected her portahle demonstration banking unit — a form of computer terminal called the Homedeck — to her hotel telephone and the bill was paid instantaneously across 8,000 miles.

But does this mark the end of a golden age? Is It curtains for that old message of comfort, "The cheque is in the post..."

"No, it's called vandalism in the towns—in the country it's called straw burning"

Map reference

A hid to put the Channel Islands on the map as a centre for international business arhitration seems to be making progress.

A local group of the Chartered Institute of Arbitrators formed earlier thia year has garnered 45 members with the influential Bailiffs (heads of government) of Guernsey and Jersey as co-patrons.

It is expected that the group will be granted branch status in the institute later this month thus shortcutting the usual one-year prohationary period.

Island members seem confident that the institute will hold its annual conference in Guernsey next year so setting the seal upon the islands membership of the arbitrators.

But why should arhitrations be based in the Channel Islands, apart from the islands being pleasant places to spend a few days? Guernsey-hased international tax lawyer Peter Redmond, who is a fellow of the institute end cbairman of the Channels Islands group, thinks that Continental organisations will be drawn to the islands because the bailiwicks of Guernsey and Jersey still have their roots in old French civil lew rather than English common law. There are also the attractions of offshore privacy and low taxation, including no VAT, he points out.

Holy caviar

Caviar has finally made it hack to the revolutionary dinner tahles in Iran. And, according to a Tebran radio hroadcast, the original religious han on its consumption was all the fault of the Russians.

Ayatollah Khomeini had decreed that aenior clergy, marine biologists and other experts had completed a lengthy study of the sturgeon and found that It was religiously acceptahle for buman consumption.

Exports of caviar earned Iran ahout $20m last year, equivalent to 10 per cent of non-oil foreign sales. But tha local population will not he asked to pay the steep prices esked in the West. The mullahs have said they can huy it at half the export price.

Observer

COMMON AGRICULTURAL POLICY

Why the pips may not squeak

By John Wyles, Common Market Correspondent

PREDICTING the outcome of a major EEC negotiation while it is still in its infancy is usually as risky as betting on whether the sun will shine on Christmas Day. Yet senior Community officials and diplomats who are not normally tempted into political forecasting are already all but certain that the attempt now under way to tether the soaring costs of the Comon Agricultural Policy is largely doomed to fail.

This is not to say that the hours of negotiation to be devoted to the subject between now and the EEC summit in December will yield no agreement at all. But a settlement is unlikely to amount to a package of measures which will ensure better balanced agricultural markets and a reduction in the annual growth of CAP costs from the current 30 per cent to single figures. At best the inordinately costly surplus of dairy products may be cut back—but nowhere near eliminated.

Meanwhile, the new cash hungry sectors of the CAP, which are largely Mediterranean and include olive oil and wine, will be left more or less free to emerge as the money drains of the future. Such an outcome would scarcely seem to comply with the demand from the EEC heads of government's June meeting in Stuttgart for "effective control of agricultural expenditure" through the full use of available possibilities. Or would it?

A general desire to protect farm incomes

Minimal expectations for the negotiations are based partly on the view that the majority of EEC leaders are not looking for a fundamental reform of the CAP. Of course, they want to curb its worst excesses but not in a way which might leave farmers materially worse off, because that might swing the farm vote sharply against them.

All but three heads of government would not be too disturbed to see the CAP dominating the Community's budget for the next decade as it has for the last. The exceptions would seem to be Mr Ruud Lubbers, Prime Minister of the Netherlands, Chancellor Helmut Kohl of West Germany and Britain's Mrs Thatcher.

The governments led by these financial disciplinarians have embarked on the negotiations apparently with a firm will to squeeze the CAP until the pips squeak. At last week's outsized Special Council of Foreign, Finance and Agriculture Ministers, Britain's Chancellor of the Exchequer, Mr Nigel Lawson, even brought with him a draconian plan for putting cash limits on the CAP which most other delegations see as totally unrealistic.

Their rejection of cash limits is borne of a general desire to protect farm incomes which would be threatened by a real economy programme for the CAP. Significantly, West Germany emerged last week as concerned about maintaining incomes as any of the minimalist governments and this is said to be one good reason why the radical cause may already be lost.

Without a sustained campaign from Bonn, which is and will continue to be much the largest net contributor to the Community budget, it is held that none of the others can be driven far in the direction of radical reform.

French farmers protesting in Paris against "falling incomes"

This might have been easier to achieve if the European Commission, whose proposals are after all the basis of the negotiations, had opted for a more courageous approach. The credibility of the proposals as a cost-saving exercise was exploded at their birth at the end of July by the fact that Mr Christopher Tugendhat, the Budget Commissioner, voted with his British colleague Ivor Richard, West Germany's Wilhelm Haferkamp and Ireland's Richard Burke against their adoption by the Commission. Mr Tugendhat argued that the plans would not achieve the Commission's stated objective of keeping the growth in CAP costs below the anticipated 6 to 7 per cent annual increase in the next few years in the *EEC's* budget revenues.

Among other things, he called for a clearer definition of what the Commission meant when it talked of the need to adopt a "prudent" policy for raising farm prices in the next few years.

He insisted that the Commission ought to keep open the possibility of price reductions in the dairy and cereals sector so as to discourage overproduction. Also, said Mr Tugendhat, the Commission needed more convincing ideas for ensuring that the rise in CAP costs was kept below the growth of budget revenues.

The Commission document says that if the proposals were fully adopted the rise in CAP spending would be 8.6bn European currency units (£4.9bn) less than it would otherwise have been by 1986-87. It does not explain how it arrived at this conclusion, nor what CAP spending will otherwise be.

Critics charge that the Commission has leaned over backwards to avoid imposing much of a direct sacrifice on farmers and is seeking too much saving at the expense of consumers and third countries.

Well informed unofficial estimates calculate that more than half of the Commission's first year savings of 2.5bn ecu would be achieved at the expense of higher prices to the consumer.

These would come through the withdrawal of various consumer subsidies and of aids which reduce production costs, and through a 600m ecu a year revenue raising vegetable oil consumption tax. This latter measure would outrage the Americans by hitting their $4bn a year export of soya to the EEC. The U.S. would also be hurt by a proposal to hold back their $430m a year exports of maize gluten, a cereals substitute for animal feed.

Other exporters to the EEC who might find their shipments cut back as a result of the Commission proposals include New Zealand (butter and sheepmeat) Argentina, Australia and Austria (beef).

This shift towards protectionism the Commission argues is needed to balance the sacrifices asked of Community farmers. But the size of these sacrifices has not been made clear, not even in the dairy sector where the proposal for a super levy would have a direct effect on producer incomes. This levy would be a tax of up to 70 or 80 per cent of the target price for milk on all dairy output above 1981 levels. Even if this wiped out the post-1981 surplus, the Community would still be producing about 10 per cent more milk than it needed.

The British and the Dutch argue that the Commission is wrong to have abandoned the course it adopted two years ago which provided for a reduction in guaranteed milk prices if 1981 output was exceeded, after allowing for any increase in consumption. Experts argue that direct action against prices is much the most effective way of discouraging production and that, in any case, the super levy can only be effective for a two- or three-year period. After that, producers themselves will begin to market the surplus in their localities.

If any more convincing evidence is needed of the lack of bite in the Commission's proposals, say the sceptics, it can be sought in Paris where they have already given rise to quiet satisfaction.

Last week M Michel Rocard, France's Minister of Agriculture, gently chided farmers' organisations for branding the Commission's proposals as totally unacceptable. On the contrary, he said, they were a basis for negotiation and were placed "not far from the centre of gravity of the position of member states." There is no government more minimalist than the French when it comes to changing the CAP—except perhaps the Irish.

This relative cheerfulness in Paris derives from the calculation that the Commission's proposals, where they squeeze at all, will pinch the Gaullist large-scale agriculturalists of northern France while leaving the Socialist-voting producers of the south relatively untouched.

What of the calculation, which is an article of faith in London, that the imminent bankruptcy of the Community will force the minimalists to embrace more radical economies?

It is certainly true that the UK could impose its veto on any increase in the EEC's budget revenues to avoid such bankruptcy until it is satisfied on the contents of the agricultural package. But this would require Mrs Thatcher to fight on two fronts because CAP economies are meant to be part of a general deal, to be settled at the Athens summit in December, which will also provide long-term reductions in Britain's payments to the EEC budget.

A shift towards protectionism by the Community

The trade-off between a modest programme of change to the CAP and a permanent settlement of the British budget problem is an obvious one for the Commission to be seeking.

This is because the huge imbalance in Britain's payments to the EEC results from the CAP's domination of the budget—more than 60 per cent of all expenditure—and the fact that Britain finances about 20 per cent of the CAP and receives only 10 or 11 per cent of its expenditure. A mechanism which permanently settles the British budget problem would leave the UK much less directly concerned about the level of agricultural spending.

If Mrs Thatcher were to win such a mechanism would she really want to block an increase in Community revenues and thus bring the Community to its knees so as to lop 1 or 2bn ECU more off CAP spending.

Lombard

Public spending—a proposal

By Samuel Brittan

DESPITE a series of squeezes and cuts the British Treasury is still worried that public expenditure commitments are too great. It fears that Britain may face a choice between further spending cuts and increases in the tax burden.

The long-term worry is that because of an ageing population and a slow growth environment the real burden of existing commitments will prove bigger than the tax paying public is willing to bear. This could be so, even if a very necessary ceiling is put on military spending when present commitments expire in 1985-86.

The consequence of an ageing population thus needs to be confronted directly. The pressures come in two directions: the increased demands on the Health Service, and the higher pension costs. About the first there is little one can say. On the second there is quite a lot.

Increasing burden

The only way that the retired population can be maintained, is by transfers from those still at work. If the number of pensioners increases relative to those at work, the burden will increase. This will be so irrespective of whether the pensions are private occupational ones or entirely State provided, and irrespective of whether the schemes are "funded" or not.

The burden implicit in existing pension arrangements becomes clear when pension fund managers say that indexed pensions would be prohibitively expensive. What this means is that they do not think that people at work would be willing to meet the real cost of the pension for which they have theoretically contracted; and devaluation of pension rights through inflation is their way of filling the gap.

At a national level, there are only three possibilities. One is that workers transfer more of their incomes to pensioners, whether through higher taxes or State or private insurance contributions. The second is to cut the real value of pensions to reduce the cost of providing for the rising pensioner population.

The third possibility, which is more promising and has not been given the attention it deserves, is to raise the retirement age, now at 65 for men and 60 for women. That would have a double effect. It would reduce the number of claimants, but increase the tax base provided by those at work.

It would be very surprising if increasing life expectancy had not been accompanied by some extension of the period of active life. We all know people who have been forced to retire kicking and screaming, while they were still eager and able to contribute a good deal. Clearly any change would have to be implemented with humanity and discretion. For instance, those in heavier manual jobs or needing to retire for medical reasons should be exempted from any upward adjustment in the retirement age.

But there is one argument against the proposal which is maddeningly muddled. It is the one that goes: "There are already 3m unemployed. Do you want to add another couple of millions?"

There is not and never has been a fixed number of jobs. When the working population has increased so has the number of jobs, if not in exact proportion. This has been the case in Britain and in every other advanced country.

Excessive wages

One school of thought attributes present high unemployment to defective Government policies and another attributes it to excessive real wages. But to say that unemployment is high because there are too many would-be workers is just a vulgar error, irrespective of one's economic theology.

One does not have to expect perfect policy or a perfect labour market to make the argument for raising the normal retirement age (as incidentally President Ronald Reagan has proposed in the U.S.). With bad luck 2m more elderly people in the labour force will mean 1½m more jobs; and with good luck it will mean 2½m. To throw away the contributions of people eager to work for pay which reflects their continuing earning capacity would be folly of the highest order. A higher retirement age would be the most painless of all the options in dealing with the financial crisis of the Welfare State.

Letters to the Editor

Questioning British Steel's forecasting methods

From Dr J. Bray, MP

Sir,—Recently the corporate planning department at British Steel Corporation's head office gave a presentation to Steel Industry Management Association representatives from Ravenscraig, Port Talbot and Llanwern on its methods for forecasting total steel demand. The representatives had good cause for concern. In January Mr Ian MacGregor told the House of *Commons* select committee on Industry and trade that BSC had excess capacity of "about two strip mills." The memorandum he submitted underestimated BSC production of liquid steel in the then current quarter by an annual rate of 1.9m tonnes, or *roughly* the capacity of one strip mill.

For the next three months BSC management maintained the recovery from second-half 1982 levels of demand was a flash in the pan. Yet all three strip mills are still producing as much as they can. In June, the last complete non-holiday *month, the strip mills* produced hot-rolled coil at a rate of 92,300 tonnes per week, compared with a manned capacity of 93,100 tonnes. The nominal installed capacity BSC claims at Port Talbot and Llanwern is only 99,500 tonnes with all furnaces and equipment working, an output that cannot be maintained. So BSC could not even meet current levels of demand with two strip mills. And manufacturing industry production in the second quarter had only increased 2.2 per cent above its 1982 fourth-quarter trough, with 16.8 per cent still to go to reach 1979 levels. Furthermore, the strip products group was back into profit in the second quarter.

BSC has proved hopelessly pessimistic about its UK market, yet on his departure Mr MacGregor was still proposing to shut down the Ravenscraig and Gartcosh strip mills in his proposed deal with US Steel. The root of the difficulty lies in BSC forecasting methods.

As confirmed by the presentation to its own sceptical managers, BSC tries to use the Treasury model to produce forecasts of demand, exports, imports, and production for each of the steel-using sectors of the economy, to which it then applies its own relationships to steel demand. When I made the Treasury model available *by my amendment to the Industry* Act 1975, my intention was that it should be used critically for the purpose for which it is intended in the Treasury, namely the evaluation of macro economic policy. As such it has a part to play in every corporate planning department. But it is not the right instrument to use for forecasting steel demand, or any other commodity level forecast.

It has only the most rudimentary characterisation of the supply side, in terms of technical or physical capacities, coefficients and lags, and comparative costs and prices which are *relevant* to production responses. It is essentially a short-term model useful for establishing the short-term coherence from year to year of a limited macro-economic description of the economy. Like a rubber hosepipe, it can be used to point a few inches ahead. But it cannot be used to point 12 feet ahead. Nor does it say much about what is going on inside the hosepipe.

If BSC does not believe me, then it it ask Mr Huw Evans, who runs the model in the Treasury, or Mr Peter Middleton, the permanent under-secretary and an experienced model-user. Or if it is worried about political considerations, let it ask Sir Terence Burns, chief economic adviser to the Treasury, or Sir Alan Walters, economic adviser to the Prime Minister.

As well as the Treasury model, BSC should use critically the Cambridge Econometrics model, which is the only UK model which treats production *functions* at *industry level, and* the inter-industry demands relevant to steel. For corporate planning purposes, both the Treasury and the Cambridge Econometrics model need to be supplemented by more detailed models of the enterprise, its industry and its principal customer industries. Models are merely a convenient way of structuring the relevant evidence and arguments.

The Department of Industry and the Government as a whole has reduced its ability to review independently its huge decisions on steel policy to a level of competence below that at any time *since before* the Iron *and* Steel Board in the 1950s. BSC is not alone in the retarded development, indeed atrophy, of its strategic thinking and corporate planning methods.

(Dr) Jeremy Bray.
House of Commons, SW1.

Constitutionally carrying out major changes

From Professors G. Jones *and* J. *Stewart*

Sir,—The White Paper on rate control asserts that "we live in a unitary and not a federal state." This statement is put forward in support of Parliament's right to confer on central government the power to fix the rates of a local authority.

Nobody would dispute that Parliament can give powers to local authorities, as it can take their powers away. In a country with no written constitution it is through Parliament that constitutional change is achieved.

Although the proposed change would be carried out constitutionally, it would still remain a major constitutional change. For there can be no doubt that the position of local authorities as the only other elected authorities in our country apart from the House of Commons is of constitutional importance. Local authorities have been given—by Parliament—the power to determine their own levels of expenditure through the use of the power to tax and have been responsible to their local electorate for their exercise of that power. For the Government now assume control of that power is a fundamental constitutional change.

Parliament has in the past been careful to distinguish its responsibility for constitutional change from other legislative change, recognising that the former requires special consideration by a committee of the whole House, and even with the devolution proposal to insist upon a consultative referendum.

The argument used by the Government cuts both ways. In a unitary country far more is at stake in the position of *local* government than in a federal country where the diffusion of power is guaranteed. In a unitary country it is only through local government that the diffusion of governmental power is achieved and an undue concentration on the cabinet avoided.

We trust that Parliament will regard the White Paper's proposal as of major constitutional importance and that members of both Houses will not lightly destroy the traditional position of local government. Rather we hope they will demand a full *investigation* by an independent commission before yet further hasty action is taken.

(Professor) G. W. Jones,
London School of Economics and Political Science.
(Professor) John D. Stewart,
Institute of Local Government Studies,
University of *Birmingham*,
c/o LSE

When the cat's away...

From the Area Manager, Glasgow/Clyde, South of Scotland Electricity Board

Sir,—I refer to Dr A Scotney's letter of September 6 under the heading "When the cat's away . . ."

The unsuccessful call on August 11 was the fifth time in succession over a period of 10 months that our meter reader had failed to gain access to read Dr Scotney's meter. Experience has taught us that it is in the interest of neither the Board nor its consumers to rely solely on consumers' own readings over such a lengthy period. As a result, the Board's standard procedures for obtaining a reading were used. Board staff telephoned on both August 18 and 19 *to fix a date to call on* Dr Scotney, but there was no reply. Accordingly, a recorded delivery letter was sent requesting that a date be fixed for the meter reader to obtain access, otherwise it would be necessary to apply for a court warrant.

The Consultative Council has reviewed in some depth the procedures used by the South of Scotland Electricity Board for dealing with matters of this kind and concluded that its procedures were operated in a fair and understanding way.

Dr Scotney says that he left the keys of his flat in case access was required, but when the meter reader called at his address on August 11 no neighbour offered to open the flat. If we know where keys can be collected, the meter reader can be instructed accordingly, but in this case we received no such notification. If, in future, Dr Scotney wishes to avail himself of this service, which is provided in the interests of our consumers, he should provide us with the necessary information.

D. Simpson,
75 Waterloo Street,
Glasgow.

Duty-free shops

From Mr J. Bourlet

Sir,—When one crosses the U.S./Canada border between Seattle and Vancouver, duty free goods are a very reasonable price—avoiding the "hefty premium" rightly criticised by B. G. W. Jamieson

The *reason* seems to be that on either side of the road approaching customs, and within sight of those officials, there are several shops competing for business. There may well be "free entry" for other prospective vendors of duty free goods.

James Y. Bourlet,
26, West Square, SE11.

FINANCIAL TIMES

Monday September 12 1983

Ø

Terry Byland on Wall Street

A bullish maturity emerges

One sign of the maturing of Wall Street's bull market has been the revival of interest in the cyclical share sectors, which had lagged behind the rest of the market in its initial bull phase.

With industry preferring to run down inventories and keep stocks low, the producers of the basic raw materials such as steel and chemicals were slow to benefit from the general upswing in the economy.

But investors are now taking a broader and longer term view of the economic revival, and past weeks have seen significant demand in the stock market for steel shares and more recently for chemical industry issues.

Shares in the major chemical groups have outperformed the Standard and Poor's 400 stock index in nine out of the past 12 weeks and the chemical stocks index, compiled by Paine Webber Mitchell Hutchins, now stands 21 points ahead of the S and P 400.

The chemical leaders have been prominent in the stock market's return to near peak levels. Over the past fortnight, gains of 10 per cent to 14 per cent have been chalked up in the shares of Dow Chemical, Hercules and Rohm and Haas.

The strength of the sector also reflects a significant reassessment of the profit outlook for the industry by several major brokerage houses. Sector earnings for the second quarter were a mild disappointment for Wall Street. Average earnings per share turned out 2 per cent below the comparable period – a substantial improvement on the 29 per cent drop in the first quarter, but still below market estimates.

Trading was adversely affected by a combination of domestic and international factors. At home, not only did industrial managers remain cautious about building up stocks but the farming industry, a major sales area for U.S. manufacturers of pesticides and herbicides, remained flat on its back. Payment-in-kind benefits to the farmers did nothing for the chemicals industry.

Abroad, the strength of the U.S. dollar was no help to the industry, which sells about 10 per cent of its total output to non-U.S. markets.

However, closer examination of the second-quarter results indicates that the best-managed companies were able to handle the problems of slow growth and a strong dollar. With the exception of Union Carbide, whose wide ranging operations in industrial chemicals, plastics and gases brought a sharp fall in profits, the industry leaders managed to lift earnings.

Monsanto, reaping the benefits of some drastic surgery over the past few years, reported 31 per cent gain in profits and was clearly able to weather the storm of the collapse in agricultural industry sales which slashed earnings in the first quarter.

Profits rose by 18 per cent at Dow Chemical, by 10 per cent at Du Pont and by 43 per cent at Hercules.

The weaker spots were those companies affected by special situations or which were weighed down by involvement with depressed industries.

Allied Corporation, a special case in view of its purchase and digestion of Bendix and Martin Marietta, suffered a modest fall in profits on a comparable basis. Stauffer suffered for its links with the farming industry which takes about one-third of total group sales.

The lesson for investors – and recent share price movements indicate that the lesson has already been learned – is that only selected chemical stocks are benefiting from the economic recovery at this stage.

Those who divested themselves of peripheral or unsuccessful businesses will be quicker to recover than those which failed to cut back or even took on fresh burdens.

Paine Webber believes that the second half of the year will bring a recovery of such proportions as to lift share earnings for the full year by around 50 per cent as raw material costs remain flat at a time when the chemical industry should be able to raise its prices.

The dollar may peak over the next 12 months and this would be of considerable benefit to the sector leaders whose overseas sales ratios far exceed the industry average. Monsanto sells 31 per cent of its total outside the U.S., and Dow Chemical 52 per cent.

Paine Webber estimates that a 10 per cent fall in the value of the dollar could put a further 50 per cent on industry profits but is not including this in its present forecasts.

Some estimates on Wall Street go even further into the future and predict another substantial gain in earnings by the major companies in 1985. The only caveat here must be that share prices are already discounting a great deal. Dow Chemical is selling on 37 times historic earnings and Union Carbide on 24 times. Even allowing for the vigour of the recovery, these multiples are looking a long way into the future.

Druze forces close in on Beirut

BY PATRICK COCKBURN IN THE CHOUF AND NORA BOUSTANY IN BEIRUT

DRUZE forces launched their heaviest attack yet, on the outer defences of Beirut over the weekend, as they mopped up the last of the Christian strongholds, to the south of the Lebanese capital.

Driving through the Chouf mountains yesterday it became clear that members of the Druze sect, who form the majority in almost all the villages, were up in arms. Militiamen clutching Kalashnikovs and heavy machine guns were moving towards the fighting, while in village squares uniforms and equipment were being issued.

Throughout the mountains the Druze are consolidating their victory over Christian militiamen last week. The fighting culminated in heavy attack on a mechanised brigade of the regular Lebanese army at Souq al-Gharb at the weekend. This is a vital position on a steep hill overlooking the capital. A Government company was almost wiped out in hand-to-hand fighting, diplomats say.

The Druze forces have swept through Christian villages, capturing 39 of them, while only three Druze villages have been taken by their opponents. They have also surrounded the town of Deir al-Qamar, where 25,000 Christian refugees are concentrated.

(The mayor of a Christian village said his three daughters told him "Syrians, Palestinians and a minority of Druze" had slaughtered scores of men but that some Druze schoolfriends helped the girls escape, AP reported.

Maroun Salim Khoury, mayor of the chief mountain town of el-Bire, spoke to reporters through an interpreter after four ambulances carrying survivors arrived under civil defence and Lebanese army escort.

Khoury said his daughters, aged 12, 15 and 20, told him that between 350 and 450 of the 1,800 inhabitants of the town had taken refuge in his home last Tuesday when Druze fighters entered the town.)

Watching Deir al-Qamar yesterday from neighbouring Druze positions, which isolate the town, it appeared unlikely that the Christians would hold it. Buildings sprawled along the side of the steep hill were wholly vulnerable, to artillery and heavy machine gun fire.

But Druze leaders nearby said they did not intend to press home their attacks because they had been ordered not to by their leader, Mr Walid Jumblatt.

One Druze officer said it might be difficult to prevent a massacre if troops from his side entered the town. Christian militiamen are believed to have killed up to 45 Druze civilians in a nearby village.

Druze reinforcements were moving towards Christian villages close to the main coast road linking Beirut to the south yesterday. An officer said they expected these villages to fall soon and they might then move to cut the coastal route.

The Druze have refused to allow the Red Cross into Deir el-Quamar. Their spiritual leader Sheikh Mohamid Abu Shaqura, speaking from his small mountain-top palace against a background of artillery, said yesterday that the Red Cross would continued to be refused access until the fate of 30 Druze women, detained by the Christians, had been clarified.

On the coastal road back to Beirut, some Christian militiamen still patrol. The Israelis, alarmed by the near approach of the fighting to their new line on the Awali River, had pushed up a small force of at least two tanks and two armoured personnel carriers towards Beirut.

Re-emphasising the alarm of Western governments which have contributed soldiers to the 5,000 strong multinational force, British Buccaneer and American F-14 aircraft yesterday overflew Beirut as a warning against further artillery attacks on their men by the Druze or their allies.

A spokesman for Mr Walid Jumblatt's Progressive Socialist Party said in Damascus that Mr Jumblatt had given orders to the Druze militias to allow the Red Cross to take food supplies and medicines to some beleaguered towns, and to take out wounded.

Another PSP official accused the Lebanese Government and the Red Cross of bias in favour of the Christian Community. He said that there had been no concern by Lebanese officialdom about the welfare of Druze refugees numbering about 7,000 who had streamed into Beirut.

He said there were 64 Druze families in a hotel in West Beirut badly in need of food supplies. He urged the Red Cross to come to the aid of Druze fighters and civilians stranded in the mountains.

Western diplomats said there were signs that both the Druze militia and the Lebanese forces were running out of stamina and ammunition in their eight-day old war.

The Lebanese Defence Ministry produced the bodies of two Palestinians and a Syrian who it claimed had taken part in the fighting.

The Lebanese army earlier advanced southward towards the coastal Christian town of Damour, 11 miles south of the capital, to protect access to Beirut, and took up strategic positions around the Chouf town of Qabrechmoun. Christian militias withdrew from Qabrechmoun to make way for the army.

Israeli intervention unlikely, Page 2

U.S. admits Soviet jet may have fired warning shots

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

THE U.S. admitted yesterday that the Soviet fighter that shot down the Korean airliner may have fired warning shots – a Soviet claim hitherto vigorously denied by the American authorities.

The U.S. State Department said that according to its tape recordings of the Soviet pilots' conversations just prior to the incident, the Soviet fighter pilot said "I am now firing cannon bursts" – about five-and-a-half minutes before he shot down the airliner with two heat-seeking missiles.

That section of the transcript, obtained from Japanese ground monitoring stations, had previously been described by the U.S. as "unintelligible".

The State Department continued to maintain that the Korean pilot was "unaware of the fact that he was off course, that he was intercepted by Soviet fighters, or that any warnings – visual, radio, gunfire – were given."

It said it could not say whether the "cannon bursts" were aimed at the airliner or were tracer rounds. The U.S. admission, however, was regarded in Washington as a serious blow to its credibility in asserting that it possessed the only authentic version of how the airliner with 269 passengers and crew on board was shot down, in Soviet air space.

Over the weekend, president Ronald Reagan reasserted his earlier claim that the Soviet Union had lied about the incident. In his first press conference as President, he said in his regular Saturday radio broadcast, he had been accused of "being too harsh in my language."

He then said – in early 1981 – that the Soviet Union had "declared the only morality they recognise is what will further world communism, that they reserve unto themselves the right to commit any crime, to lie, to cheat, in order to attain that."

He left no doubt that he will continue to use the incident, which has provoked nationwide outrage in the U.S., as a stick with which to beat the Soviet Union.

Earlier story, Page 2

Raper agrees to make full bid for Westminister Property

BY DAVID DODWELL IN LONDON

MR JIM RAPER, the rebel UK businessman excommunicated by the City of London establishment four years ago because of the way he took control of a Cornish tin-mining company, this weekend capitulated to demands from the British Takeover Panel that he should make a full bid for Westminster Property Group.

By bowing to the Takeover Panel's ruling, and by offering a comprehensive apology for past actions, Mr Raper has brought an end to four years of attrition which has put in jeopardy the Panel's claim to be able to keep order in the London market through voluntary self-regulation.

He has also lifted a shadow from Westminster after what the company's managing director described yesterday as a "miserable six months." Fears that its shares might be suspended as a result of Mr Raper's bid for control have put a blight on the company since early this year.

In return, the Panel has agreed to expunge its ruling made in 1980 after the takeover of St Piran, a tin mining and housebuilding group, that Mr Raper "is a man unfit to be a director of a public company." It also agreed to lift its ban on stockbrokers or merchant bankers having any dealings with him.

Mr Raper said that ostracism from the City had hindered St Piran's growth over the past four years. "Now we have to make up for lost time," he said. "We intend to enter a period of acquisitions."

Mr Raper has indicated he will make a full bid for Westminster through Milbury Ltd, a subsidiary of St Piran, at 35½p per share. This is the price called for by the Panel, and compares with a price of 20p when the London stock market closed on Friday evening. A share alternative is planned. The bid values Westminster at £9.85m ($14.6m).

Mr Raper has also abandoned efforts to win boardroom seats in Westminster by calling an extraordinary shareholder meeting on September 19.

Brazil in new debt deal talks

Continued from Page 1

At the end of last year, Brazil had $16.1bn outstanding in medium-term debt to international banks categorised as Resolution 63 loans, out of a total medium and long-term debt of $69.7bn.

No directive has been sent out from the central bank in Brasilia to commercial banks notifying them formally of the suspension of interest payments on these loans. But foreign bankers in Rio de Janeiro and Sao Paulo say the halt followed the centralisation of all foreign exchange payments at the end of July.

North Sea oil price

Continued from Page 1

was quoted at $30.30 compared with $31.30 four weeks earlier and Nigerian Bonny light was at $30.70 to $30.90 compared with $31.12 a month previously. In the same period Arabian Light slipped from $29, its official selling rate, to about $28.65.

Opec's market monitoring committee is chaired by Dr Mana Said al Otaiba, the United Arab Emirates Minister of Oil, and its other members consist of chief delegates of Algeria, Indonesia and Venezuela. Significantly, though, its session is expected to be attended by Mallan Yahayu Dikko of Nigeria.

With output estimated at rather more than 1.45m b/d in the April-June period Nigeria has exceeded its quota under Opec's production sharing agreement and is believed to have run at the rate of about 1.7m b/d in July. At the last Opec conference, held in Helsinki in mid-July, Nigeria undertook to reduce the average for the third quarter to 1.3m b/d but clearly the attractiveness on the market of its premium light crude has been enhanced by its price of $30 per barrel.

It is believed that other Opec members, especially Arab producers in the Gulf, will intensify pressure for a rise in the price of Nigerian crude, regardless.

Wall St gears up for new advance

By Terry Dodsworth in New York

NEW YORK share prices are expected to challenge their three-month-old record this week as the market reacts to the unexpectedly large fall in U.S. money supply figures announced on Friday.

The $2bn decline in the basic M1 measure to $516.8bn sparked a furious rally in the bond market in late Friday trading, and this is likely to be taken up by the equity markets when they open today.

Similarly favourable M1 figures in the preceding week prompted a 23.27 point rise in the Dow Jones Industrial Average last Tuesday, with the index finishing a little over 24 points up on the week at 1239.74 – about 8½ points short of the record 1248.30 set on June 16.

Friday's surge in bond trading, which saw the key 30-year Treasury long bond close about 2 points up at 104⅝, also brought the dollar under pressure as the currency markets responded to the decline in U.S. interest rates. At its latest price, the Treasury long bond is yielding marginally below 11.50 per cent against 11.82 per cent at the beginning of the week, while the yield of three month Treasury bills has fallen by 18 basis points to 8.97 per cent.

The dollar fell in New York on Friday to DM 2.6575, against DM 2.6839, while sterling also strengthened to $1.5015 from $1.4930.

The main bugbear for equities remains the fear that heavy central government financing needs over the next few weeks will put pressure on the debt markets at a time when industry's demand for finance will be growing from its recessionary lows.

During the traditionally slack August trading period, equity investors responded to these doubts by standing on the sidelines and trading only within a narrow range. Last week, however, there were scattered signs that some institutions were becoming increasingly hopeful that interest rates would not strengthen unduly during the autumn and choke off the industrial recovery.

The favourable money supply figures, with M1 falling four weeks in succession and the three main aggregates – M1, M2, and M3 – all now within their target range, should re-inforce these bullish tendencies.

But there is still considerable uncertainty about the future trend in the monetary aggregates through the autumn.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	26	79	Dubrovnik	S	26	79	Malaga	S	26	79	Salzburg	C	15	59
Akrotiri	S	29	84	Faro	S	28	82	Malta	F	28	82	Seoul	R	21	70
Algiers	S	30	86	Florence	F	28	82	Manila	F	33	91	Singapore	R	29	84
Amsterdam	R	11	52	Frankfurt	F	15	59	Miami	C	31	87	Stockholm	R	16	61
Athens	S	27	81	Funchal	S	24	75	Milan	S	24	75	Strasbourg	F	16	61
Bahrain	S	33	91	Geneva	R	10	50	Moscow	C	12	54	Sydney	S	21	70
Bangkok	S	32	90	Gibraltar	S	27	81	Munich	—	—	—	Taipei	S	33	91
Barcelona	S	24	75	Guernsey	C	13	55	Nairobi	—	—	—	Tangier	S	24	75
Beirut	S	28	82	Helsinki	C	13	55	Naples	S	27	81	Tehran	—	—	—
Belgrade	S	33	91	H. Kong	R	30	86	New Delhi	C	31	88	Tel Aviv	S	30	86
Berlin	S	19	66	Innsbruck	R	11	52	New York	C	37	98	Tenerife	S	26	79
Biarritz	C	15	51	Inverness	C	10	50	Nice	S	24	75	Tokyo	C	26	79
Blackpool	C	13	55	Istanbul	S	24	75	Oporto	S	20	68	Toronto	C	34	93
Bordeaux	F	17	63	Jersey	C	13	55	Oslo	F	16	61	Tunis	—	—	—
Brussels	C	13	55	Jo'burg	S	22	72	Paris	C	14	57	Valencia	S	27	81
Budapest	R	27	81	Las Palmas	S	26	79	Prague	F	15	59	Venice	F	28	81
B. Aires	S	15	59	Lima	S	22	77	Reykjavik	C	9	48	Vienna	C	14	51
Cairo	S	33	91	Lisbon	S	21	70	Rio de J'o	C	21	70	Warsaw	—	—	—
Cape Town	—	—	—	Locarno	C	19	66	Rome	R	26	79	Zurich	C	14	57
Caracas	—	—	—	London	R	12	54								
Casablanca	F	24	75	Los Angeles	S	36	97								
Copenhagen	F	11	63	Luxembourg	C	11	52								
Corfu	S	28	82	Madrid	S	24	75								
Dublin	F	14	57	Majorca	F	27	81								

Readings at mid-day yesterday.

C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

IMF cautious optimism

Continued from Page 1

the present time" to take advantage of "recent and prospective progress toward convergence of economic policies and conditions in the larger industrial countries" to stabilise exchange rates, the report said.

"Other areas of vital need for international co-operation include the difficult international debt situation, the provision of adequate official development assistance to the low-income countries, and the avoidance of protectionist trade policies, both in industrial and developing countries."

Restrictions by industrial countries on their imports from the developing world have particularly serious adverse implications for the economies of developing countries," the report said.

"In the near-term, continued access to world markets by debtor countries is essential if they are to be in a position to service their external debt and maintain an adequate level of imports."

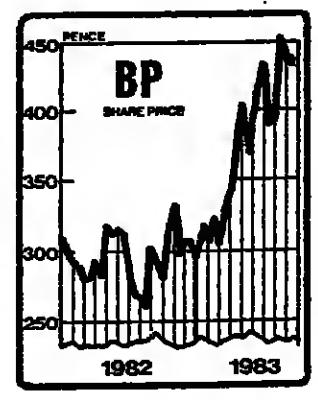
In a longer-term perspective, restrictions against the exports of developing countries penalise most severely those countries that have adopted outward-looking growth strategies and the liberalisation of their domestic economies advocated by the Fund.

THE LEX COLUMN

The BP route to market

The number of unknowns in the Government's proposed disposal of another chunk of its BP stake are strictly limited. The Chancellor of the Exchequer has already announced the amount, £500m and the method, an offer for sale. That leaves three key uncertainties: timing; whether investors will be offered stock at a fixed price or through a tender; and whether a partly-paid mechanism will apply.

The 1977 Government disposal of BP stock involved £590m – a sum which dwarfed anything that had been seen previously. The size prompted the Government to spread the market by offering a proportion in the U.S. in the shape of ADRs, a proportion which in the event emerged at 20 per cent. This time round there seems little pressure to use this device. In real terms this year's issue will be around half the size of that in 1977, while the UK market has been displaying sharply greater capacity.



Oil demand

In 1977, and to a lesser extent in the 1979 offering, one strong Government card was the weightings argument. The Government holding in BP – which topped 70 per cent in 1977 – made it impossible for the institutions as a body to maintain a full weighting in the sector, thus creating a disposition towards taking up any stock that was unlocked. Little has been heard of the argument over the last couple of years, when oil stocks were out of favour, and being underweight was a desirable investment posture. But this year, with the outperformance of the sector, weightings have again come under scrutiny.

From the beginning of the year, the oil sector has risen by 48 per cent, against a rise in the All-Share index of 18 per cent, boosted by Opec surviving the spring crisis and the pick up in world oil demand. On the spot market over the last two months North Sea crudes have been consistently $1 a barrel above the contract price, suggesting that the next Opec move may involve a modest upward realignment of differentials.

At the same time BP itself has begun to look markedly more attractive than it did a couple of years ago. Indeed, in spite of the imminent offer for sale, it has more or less kept up with the sector since January. The main squeeze on BP's profitability in recent years has been its oil trading operation, originally established to shift volumes of crude from the lucrative upstream operation – virtually regardless of profitability. The measures taken last year to turn the oil trading operation round are now beginning to show through, most evidently in the recent figures for the second quarter, when an underlying – and undistorted – profit for the division of £123m was reported.

The same figures demonstrated that the company had regained control of its cash flow, and the interim dividend was raised to rub the point home. Further evidence of an aggressive new management style was provided by Thursday's announcement of plans to dispose of part of the Forties field, with the aim of substituting highly taxed income for capital which can be applied to more rewarding areas. With drilling in offshore Alaska at Mukluk and in the China Sea due to start this autumn, the company has no shortage of spending opportunities.

While the oil sector has now topped its previous high of 1980 in absolute terms, it still has a way to go before recouping its relative position. This may tempt the Government to delay the sale a little longer, especially as the drilling programme promises to generate some excitement – not least in the U.S. But the 1979 sale, which only got away by the skin of its teeth, demonstrated how easily an offer can become entangled in a general market fall. So the pressure on the Government to move while conditions look favourable is intense, and Thursday, assuming the Vienna Opec meeting holds no surprises, looks the likeliest date for the launch of the operation.

The final decision on whether to go for a tender or fixed price has apparently not yet been taken. The tender method should in theory produce the highest return for the seller, but the poor response to Britoil must temper any enthusiasm. Nor is the advantage of the tender method in fixing a market price for a new entrant relevant, since BP's market price is already established. Nevertheless, the issue's backers have a difficult pricing problem in assessing the extent to which BP is already discounted in expectation of the issue. In favour of the tender, too, is the growth in familiarity with the method since the Britoil launch, although the size of the BP issue remains a discouraging factor. Certainly, financial advisers are now well experienced in pitching the tender striking price at a level that promotes a healthy after-market.

If the Treasury does decide to risk the stags and play safe with a fixed price, discount is likely to be slender. The current price, of 436p at Friday's close, already discounts an imminent offer, while purchases of the Government shares will not – to judge by precedent – attract stamp duty. So the discount should be in the 5 per cent range of the 1977 and 1979 issues, suggesting an offer price of about 410p.

One unambiguous lesson from the Britoil launch was the desirability of underwriting – so there should be no innovations on this front. Less clear-cut is the benefit of making the issue partly-paid. This mechanism is designed to enhance the attractions of an issue by providing a geared effect in a rising market. However, in both the Britoil launch and the 1979 BP offer the device backfired badly, creating a depressed after-market, a lesson which investors may not have been slow to learn. Meanwhile, in the current climate a £500m fully-paid offer is well within the mechanical capacity of the market.

Pressure

The 1981 rights issue, which incorporated a reduction in the Government's interest in BP, suggests that preference for existing shareholders might sharpen up the after-market, since it would put pressure on those institutions whose weighting was already low to buy. But the inequity involved in this approach makes it politically unattractive.

Ironically, the greatest element of uncertainty surrounding BP's stock emanates from the Government itself. On this occasion it will be lowering its 39 per cent holding in BP to around 32 per cent. Investors have no way of knowing whether this level represents a rock bottom stake, or whether more stock will come dribbling out depending on the contingencies of government financing. In the interests of other stock holders, and to enable the company to plan its capital requirements sensibly, the Government should make clear what its medium-term intentions are.

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by G.T.S. Damer, Frankfurt/Main, A.V. Hare, R.A.F. McClean, M.C. Gorman, B.A. Lawrence, D.E.P. Palmer, London, as members of the Board of Directors. Printer: Frankfurter Societäts-Druckerei GmbH, Frankfurt/Main. Responsible editor: David Boggis, Frankfurt/Main.

هكذا من الأصل

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday September 12 1983

CREDITS

Cellulosa threat to Argentine debt plan

BY OUR EUROMARKETS CORRESPONDENT

EVIDENCE has emerged that the problems of Argentina's ailing paper manufacturer Cellulosa Argentina are now beginning to have an impact on the country's efforts to reschedule some $6bn in public sector foreign debt.

Morgan Gnaranty confirmed in New York over the weekend that the signing of a $250m rescheduling agreement for Aerolineas Argentinas, the state airline, was being postponed. Originally set for last Friday, the signing was of crucial importance for Argentina because it was due to be the first in a series of reschedulings for public sector agencies.

Only when a first such rescheduling is actually signed are banks due to disburse the $1.5bn medium term credit intended to accompany the rescheduling package and needed now by Argentina because the final quarter of the year is the toughest for its balance of payments.

No official reasons have been given for the delay but bankers say that it is indirectly related to the failure of Cellulosa to agree a rescheduling plan involving foreign bank creditors who are owed some $100m. An Argentine judge has excluded these banks from the next creditors' meeting of Celhulosa this Friday amid fears that under the country's bankruptcy code they may have to wait up to 15 years for their money back.

Cellulosa is a private sector company and its affairs are in no way legally connected to the rescheduling package and new loan, but the tactic being adopted by creditor banks (which include the Royal Bank of Canada as leader of a $50m syndicate) is to make difficulties for the public sector rescheduling package in return for the difficulties they are facing with Cellulosa. Some banks have also been slow to agree formal waivers of penalty interest that they could claim from Argentine debtors from the time when the country was running interest arrears on its private sector debt. These are also needed for disbursement of the $1.5bn loan, which could now face delays.

Elsewhere in Latin America it was another week of suspense for Brazil as two main factors became increasingly clearer, neither of them heartening for creditor banks.

First, the Government of President Joao Figueiredo is now dawdling over completion of its letter of intent to the International Monetary Fund which is regarded as essential before any international rescue package can proceed.

Second, creditor governments and central banks are still a long way from finalising even the outlines of such a package with particular uncertainties remaining over the nature of much needed bridging finance and the relative share of governments and commercial banks in providing up to $11bn in new money.

Sr Ernane Galveas, Brazil's Finance Minister, and Sr Affonso Pastore, the new president of the central bank will meet commercial banks and western central bankers in New York tomorrow and Wednesday, but given the great complexity of the situation few are expecting much in the way of concrete results.

The Eurocredit market itself was dominated last week by the success of the sterling credit for Sweden which is set to be doubled to £500m because of massive oversubscription. Ironically its very success has led to criticism from some banks who feel that Samuel Montagu, which is arranging the transaction, invited too many lead managers to enter the deal.

As a result of such a high level of acceptances the 50 lead managers will receive lower than expected allocated underwritings and proportionately lower fees which will tend to reduce their earnings from the credit.

INTERNATIONAL BONDS

Fixed-rate issues still becalmed

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONOON

FOR A MOMENT last week it looked as though a new issue window was about to be flung open in the Eurobond market.

With prices buoyed by the $1.4bn drop in U.S. money supply announced ten days ago, two new issues for a total of $300m were announced on Tuesday, and both were well received. The Ontario Hydro, 11¾ per cent bonds were immediately increased from $150m to $200m and closed on Friday at a narrow discount of 1¼ from their 99¼ issue price. The EEC's $100m, 12 per cent issue was priced at par. This was the upper end of the indicated range and the bonds were subsequently quoted at a discount of 1⅛ per cent.

Yet this was not enough to lure investors back into a market that is still beset by interest and exchange rate uncertainties. Throughout last week trading volume was generally low with dealing confined mainly to professional traders. By Friday prices of seasoned Eurobonds had risen only about ⅜ points from a week before and the new issue window was firmly closed again. Whether it will reopen this week will depend heavily on the market reaction to last week's unexpected $2bn in M-1 money supply.

What was still worrying investors in this market last week was an expected bulge in U.S. money supply during the rest of September. This could lead to higher interest rates if M-1 moves outside the target range set by the Federal Reserve. On the other hand rates are already very high in real terms and most expectations are that they will fall between now and the end of the year.

So while the market in fixed-rate bonds still looks rather jaded, other market sectors that offer some protection against rate volatility are flourishing.

For example, floating rate notes were generally firm in active trading last week and, unusually, dealers noted some retail interest in this sector which is usually preffered by institutions. Following the success of the $100m floating rate issue launched last week for RENFE, Spain's state railways, by Credit Suisse First Boston, the same house is this morning launching a $250m, 10-year floating rate issue for Indonesia.

The bonds will bear interest at a margin of ¼ per cent over six-month Libor with a minimum coupon of 5¼ per cent. Investors can request repayment at par after five or seven years.

Similarly, warrants, which offer a cheap hedge against interest rate movements, were again in vogue last week with issues from both Merrill Lynch and Credit Suisse First Boston. The advantage of warrants is their extreme cheapness – little money is lost by an investor who decides not to exercise them – and this showed when Wood Gundy sought to bring a partly paid issue for Royal Trustco of Canada in the Canadian dollar sector on Thursday.

Theoretically, partly paid issues offer a similar protection to warrants, but the cash outlay is initially larger at, say, $250 per $1,000 nominal of paper. This is enough to discourage would-be hedgers, especially as they can now buy Merrill Lynch's Canadian warrants at a mere C$30 each.

New issue volume in Germany is set to decline over the coming month following last week's meeting of the Capital Markets Sub-committee which set a calendar of only DM 700m in new issues for September.

The lower calendar had little impact on bond prices, however, as the D-mark remains rather weak on the exchange market.

What some bankers in Germany now believe – and this would apply in the dollar sector as well – is that a serious shortage of new paper could rapidly develop as soon as interest rates do finally turn decisively lower. After weeks of being becalmed bond markets could face a brutal change of direction.

A hint of this is already evident in the heavy demand for recent German issues with high coupons. In a rare development for the German market the issue for South Africa's Department of Posts and Telecommunications was priced on Friday at more than par. Its 100⅜ per cent issue price is seen as more than just a reflection of the high 9 per cent coupon; some investors at least are anxious not to miss an interest rate peak that is coupled neatly with a currency trough.

Bearer option for U.S. Euro-investors

BY ALAN FRIEDMAN

THERE WAS good news last week for American investors in the Eurobond market. As a result of regulations stemming from a piece of U.S. legislation which sounds like a non-stick coating for frying pans – Tefra – Americans will now be legally entitled to hold Europaper in bearer rather than registered form.

It seems the U.S. authorities have decided finally to recognise that bearer bonds are the way of the Euromarket and not even U.S. law can change this. As a result, the U.S. Treasury last week announced regulations under Tefra (the Tax Equity and Fiscal Responsibility Act of 1982) which will allow U.S. Eurobond investors to hold bearer bonds in the Euroclear and Cedel bond clearing systems.

Mr Tom Fox, manager of Euroclear in Brussels, has had a series of discussions with the U.S. Treasury over the past year on the need to include a provision in the proposed Tefra regulations which would allow bearer bonds held by U.S.-based investors to reside in European clearing systems. He described the regulations as "a major accomplishment that will be of significant benefit to participants."

Until now the Tefra regulations would have subjected any U.S. holders of bearer Eurobonds to specified tax penalties. If the new regulations had not been agreed there could have been substantial delays in the settlement of transactions and the cost to investors of converting bonds from bearer to registered form and back again would have been considerable. The revisions will eliminate expenses which Eurobond houses would have incurred in the physical shipment of bonds back and forth across the Atlantic.

The proposed regulations are obviously beneficial to the Eurobond market, but it is hard to say whether they will make a major difference in the behaviour of U.S. investors in the Euromarket.

Market sources say that while there has been a significant amount of physical shipment of Eurobonds to U.S. institutional investors (mainly insurance companies and pension funds), there has always been and almost certainly will always be a certain portion of U.S. investors who take advantage of the bearer nature of Eurobonds to avoid anything as bothersome as taxation.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Ontario Hydro ‡	200	1990	7	11¾	99¼	Deutsche Bank	11.914
EEC ‡	100	1993	10	12	100	CSFB, Deutsche Bank, Soc. Gen.	12.000
Renfe †‡	100	1991	8	5¼∅	100	CSFB, Sumitomo Fin.	–
Yamanouchi Pharm. §	50	1990	7	4	100	Nikko Secs.	*
Indonesia †‡	250	1993	10	5¼∅	100	CSFB	–
CANADIAN DOLLARS							
Royal Tst. Co. of Canada ‡	50	1988.	5	12⅝	100	Wood Gundy	12.625
D-MARKS							
Asics Corpn. §‡	50	1991	8	5	100	Commerzbank	5.000
Postmaster Gen. S.A. ‡	100	1998	7	9	100⅜	BHF-Bank	8.926
Ireland ‡	150	1991	8	8⅝	99½	Commerzbank	8.714
EIB ‡	200	1993	10	8¼	100	Deutsche Bank	8.250
SWISS FRANCS							
Best Denki **§‡	50	1988	–	3½	100	CS	3.500
Nippon Seiko **§‡	80	1988	–	3⅜	100	UBS	3.375
Sumitomo Heavy Inds. ‡	100	1991	–	6	99½	SBC	6.081
Sakai Heavy Inds. **§‡	35	1988	–	3½	100	Bank Julius Baer	3.500
Tamura Saisakusho **§	35	1988	–	3–3⅜	100	SBC	*
Ibiden **§	25	1989	–	3½	100	SBC	*
World Bank **‡	150	1986	–	5½	100	CS	5.500
World Bank **‡	100	1988	–	6	100	CS	6.000
Hanwa Co. **§	80	1989	–	3⅝	100	Banca del Gottardo	*
Fujikura **§	40	1989	–	3½	100	UBS	*
Okamoto Machine Tool **§‡	20	1989	–	3½	100	Banca della Svizzera Italiana	3.500
SATS **‡	50	1990	–	6⅛	100	SBC	6.125
ECUs							
EEC ‡	70	1993	6½	11¼	100½	ABN, Kredietbank	11.165
Genfinance ‡	60	1990	7	11	100½	Soc. Gen. de Bque., Paribas, Amro, BBL, Deutsche, Kredietbank Int.	10.894

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. ∅ Minimum. § Convertible. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. BONDS

Market bounds ahead following another unexpected M1 dip

SPARE a thought for the back-room boys in the U.S. brokerage firms whose job it is to predict the weekly U.S. money supply figures. After their performance over the last month there are more than a few who will be woodering whether they should look for another job.

For four weeks now the markets estimates of the weekly M1 money supply figures, which are released just before tea-time on Friday afternoon, bave been hopelessly wrong. As a result the last balf bour of trading has seen wild swings in U.S. bond prices.

Last Friday was no exception. For the second week running, the analysts bod been predicting a hefty increase in M1. At the start of the week some estimotes had ranged up to $5bn, but by Fridoy these bad mostly been trimmed back to $1bn or so.

Then come the figures — a surprise $2bn drop in M1—and for the next half hour there was chaos in both the credit and foreign exchange markets. U.S. bond prices jumped by np to two points with the Treasury long bond moving back above 104 and the U.S. dollar fell beavily against other currencies, as forex dealers concluded that the news ruled out any hope of higher U.S. interest rates.

For three out of the last four weeks, the U.S. credit markets have been surprised by good money supply figures. And with the release of the monthly M2 and M3 figures, all three measures are in the required target range for the first time in a year.

Although the Fed has repeatedly stressed that it places more emphasis on M2 and M3 which bave been well within their target ranges for some time, the bond market has bad a fixation with the erratic, weekly M1 figures. But now that the latter is comfortably within the Fed's 5 to 9 per cent target range, market analysts moy be able to relax a little.

The latest figures appear to remove fears that the Fed might be tempted to tigbten monetary policy in the short term following the slight tigbtening of mid July. U.S. monetary officials bave been getting plenty of indications that the economy is alowing to a more moderate pace and this week's economic data could well provide them with even stronger evidence that their tighter money policy is having the desired effect.

Tomorrow's August retail figures could show a small drop from the July figures and Thursday's induatrial production statistics will also be monitored closely by the market. After rising by 1.8 per cent in July, the market is looking for a sharp slow-down in August with analysts talking of an increase of between 0.4 per cent and 0.8 per cent.

Assuming the economic data nnderpins the growing evidence that the economy is slowing down, analysts are still divided on how they feel the Fed migbt respond. The more optimistic helieve the Fed could soon loosen its grip on monetary policy. There are good political reasons why recovery should not be choked off too soon and internationally the very high level of U.S. interest rates in real terms continues to exacerbote seriously the problems of the world's most heavily indebted countries.

But other analysts are still worried about the long term prospects for the federal budget. Aubrey Lanston in its latest weekly market letter notices thot the persistence of large structural federal budget deficits in the current recovery will clash against recovery related increases in private credit demands.

William Hall

U.S. INTEREST RATES (%)

	Week to Sept 8	Week to Sept 2
Fed funds wkly aver	8.53	9.44
Three-month CDs	9.55	9.75
Three-month T-bills	9.06	9.12
30-year Treas bond	11.73	11.91
AAA Utility	12.75	12.88
AA Industrial	12.75	12.88

Source: Salomon Bros (estimates). In the week ended August 31 M1 fell by $2bn to $513.3bn.

Foreign investment curbs for Japan's life groups

BY YOKO SHIBATA IN TOKYO

JAPAN'S life insurance companies are being discouraged from excess investment in overseas bonds and securities by the financial authorities in a bid to check capitol outflows from Japan.

Japan's 23 life insurance companies hove recently accelerated investments in foreign bonds such as Yankee bonds, Eurodollar bonds and Australian bonds, and this is being cited by the financial authorities as a major cause of the foreign exchange weakness of the yen.

According to the Ministry of Finance, Japanese overseas investment in bonds and securities in the four montho to July rose by $2bn to $4.9bn, against the same period in 1982. Investment in foreign bonds more than doubled to $3.9bn from $1.87bn.

Life insurance componies—Japan's biggest investors overseas—lifted the outstanding balance of investment in foreign bonds and securities to $8.3bn as of March 1983, an increose of 50 ner cent from the balances at March 1982.

From the turn of thio year, some life insurance companies bave stepped up their purchase of overseas bonds to more than 30 per cent of the monthly increase in their assets. It is understood that the top five insurance companies were told last year by the MOF to restrict their investment in bonds issued abroad to less than 10 per cent of the monthly increase in their assets.

The steep rise in investment in overseas bonds by the life insuronce industry has been frowned upon by the financial outhorities for some time. The MOF, bowever, denied administrative guidance of the life insurance industry, saying "the life insurance industry seems to have taken the restraint measure voluntarily."

The life insurance industry association hos also denied investment guidance from the MOF. However, some life insurance companies with excessively large overseas portfolios appear to bave been warned by the MOF officials individually.

However, life insurance company buying of foreign bonds could sbortly be dompened following the iodustry's commitment to subscribe to the Y600bn ultra-long 20-year government bonds being flooted in September, October and November. Japan's life insurance industry has assets exceeding $122.5bn.

● Japanese over-the-counter trading registration standords will be eased substontially under new regulations expected to take effect in November. Starting date ond new standards for the OTC share market will be decided ot a boord meeting of the Securities Dealers Association this Friday.

The new regulations, along with a planned expansion of the market, using computer information systems, will widen fund raising channels for companies and provide broader scope for investors.

Under the proposed rules, a company would be allowed to make an OTC public offering of new stocks equivalent to a maximum 30 per cent of its outstanding issued share volume. The company would have previously to bave reported more than Y10 in after-tax profits per share, and trading volume of more than 30,000 shares a month for the preceding three months.

A company would not need to show a record nf past dividend payments for registration, provided it reports "sound profits and invests them in future expansion."

New owner for ailing Turkish bank

By Our Ankara Correspondent

ORTADOGU Iktisot Bank, the 10th largest private bank in Turkey, is to be bought by Mr Emin Hattat, the major portner in Hema Holding, the major engincernig group. The bank currently belongs to the Kozanoglu-Cavusoglu group whose ossets were mostly acquired by the Ministry of Finance in July.

Mr Hattat is to buy Kozanoglu-Cavusoglu's 90 per cent interest in the bank. This is the second time a Turkisb private bank bas cbanged hands in less than a week following the Dogus construction group's purchase of the Garanti Bankasi.

Ortadogu has been baving difficulties meeting obligations to increase its capital from $780,000 to $5.6m under recent Turkish banking legislation.

● Banque Commerciale Zairoise shoreholders in Belgium and Luxembourg are to be paid dividends owing since 1973 following negotiations between the Bank of Zaire and Societe Generale de Belgique.

The bank is 25 per cent owned by the Zairean state, and its biggest foreign ohareholder is the Societe Generale de Belgique.

Aker receives fresh injection of capital

BY FAY GJESTER IN OSLO

NORWAY'S Aker ship and platform building group has reached a major debt reduction agreement with its main creditor, the Norwegian Ship Mortgage Institute.

Aker incurred hcavy debts following the bankruptcy of the late tonker magnate, Hilmar Reksten, a major customer. Reksten was unable to pay for several large tankers ordered, and Aker still has claims on the Reksten estate.

In a settlement announced at the weekend, the Ship Mortgage Institute will halve its NKr 250m ($33.3m) claim on Aker. In exchange, Aker has undertaken to writedown its present capital by 75 per cent to NKr 12.5m, and to secure an injection of fresb capital totalling NKr 100m.

A group of investors—understood to include leading Norwegion banks and insurance componies—is prepared to put fresb money into Aker once its present capital structure has been reorganised. The proposed capital write down, followed by a sbare issue, would curtail the present dominant sharebolding position of the Fred Olsen shipping group whicb until now has controlled around 75 per cent of Aker.

Of the NKr 125m which Aker will continue to owe the Ship Mortgage Institute, NKr 62.5m is a subordinated loan on which, for the next ten years, neither interest nor repayment instalments will be due. Thereafter it will be repayable over five years.

Under the settlement, the Olsen interests have undertaken to write down by 75 per cent a NKr 25m claim on Aker. This, in the form of a subordinated loan, is being reduced to NKr 6.25m, which the Olsen interests will be entitled to convert into Aker shares.

Aker also owes NKr 15m to the state Industrial Aid Fund (a loan granted to tide it over the Reksten bankruptcy). It is understood to be negotiating some concession on this debt, and on a NKr 50m loan guarantee which the Fund granted to Aker.

Aker, which is currently restructuring to concentrate on oil-related activities, reported increased operating profits for first holf 1983.

But extraordinary losses stemming from the restructuring produced a half year deficit, before end year adjustments, of NKr 34m, compared with a profit of NKr 5m in first balf 1982.

INTERNATIONAL APPOINTMENTS

Chief executive for Marsh & McLennan

● Mr Bruce W. Schnitzer has been named chief executive officer of MARSH AND MCLENNAN, INC., insurance brokerage and risk management subsidiary of Marsh and McLennan Companies, Inc., from December 1. He will continoe as president of the subsidiary, a position to which be was appointed in January, 1983. Mr Alessandro C. di Montezemolo, current chief executive officer of Marsh and McLennan, will retire on December 1. Mr Schnitzer joined Marsh and McLennan Companies in 1977 as vice-president and chief financial officer. Prior to that be was a vice-president and head of the merger and acquisition group of Morgan Guaraoty Trust Company.

● DAMON BIOTECH, INC. has appointed Mr Ronald G. Doff formerly head of viral and cell biology at Abbott Laoratories, as vice president of development. Dr Duff will be responsible for all pbases of development for new products in the fields of cell culture and pharmaceutical delivery.

● Mr Timn Relander has been appointed managing director of the CONFEDERATION OF FINNISH INDUSTRIES in succession to Mr Stig H. Hasto, who retires. Mr Relander became deputy managing director of the Confederation in 1980 after five years as director of the economics division of the Ministry of Finance. His replacement is Mr Vesa Voinlo, 40, who has been with the Confederation since 1977.

● After 20 years with the RHM GROUP, Mr J. M. Semple will reach retirement age in May 1984. He bas been a main board director of RHM since 1972 and head of RHM Holdings (U.S.) Inc since 1979. He will be succeeded as president and chief executive officer of RHM Holdings (U.S.) Inc by Mr Bryan Gibbs, who since 1982 has been managing director of the RHM grocery division in the UK. Mr Gibbs will transfer to the U.S. in January 1984 to begin taking over his new responsibilities. RHM Hodlings (U.S.) Inc is the Chicago-based management company for RHM's American subsidiories, whicb operate food factories from New York State to Denver, Colorado and the Northwest Pocific Coast.

● Mr Joe B. Cordell, president and chief operating officer of JIM WALTER CORP has been elected to the additional post of cbief executive officer. Mr Walter, founder of the company, will continue as chairman. Mr Cordell joined Jim Walter in 1958 as vice president and chief financial officer and was elected a director in 1966. He was named president and chief operating officer in 1974.

● MDB SYSTEMS INC., based in Orange County, California, independent manufacturer of minicomputer interfaces, has named Mr Mario D. Brero, general manager of MDB Systems Europe Inc. in Geneva. Mr Michael West has been appointed managing director of MDB Systems Enterprises, UK, based in Slough.

● THE STANDARD OIL COMPANY (OHIO) bas appointed Mr Gerald Blackmore chairman of Old Ben Coal Company (a Sohio subsidiary). He was executive vice president, fuel supply, for tbe American Electric Power Service Corp, a subsidiary of the American Electric Power Company, and is cbief operating officer for AEP's affiliated coal companles. He is also responsible for the purchase of coal mined by others and the transportation of all coal mined by AEP.

● TEXAS INSTRUMENTS bas made Mr Field, president of its consumer group and vice president of Texas Instruments Inc. Ha comes to TI after 19 years with the Procter and Gamble Company, most recently as general manager of the coffee division.

● Mr Robert L. Genillard has succeeded Dr Hugo A. Frey as cbairman of CLARIDEN BANK, ZURICH. Dr William Wirth becomes the bank's vice-chairman.

● Mr Christopher L. Crawford, formerly associate director of the operations group of the AMERICAN BANKERS ASSOCIATION, has been named director of that group, replacing Mr Charles F. Bates, who joins the Atlanta-based research and consulting firm of Electronic Banking, Inc., as executive vice president and general manager. As director, Mr Crawford will be responsible for ABA's cluster of banking professional areas concerned with the technology, operations and data processing concerns of the banking industry.

● Ms Catherine Herrald Nickolaisen has been appointed as director of heliports for the HELICOPTER ASSOCIATION INTERNATIONAL. Ms Nickolaisen will help establish public-use heliports in specific cities around the world and coordinate the efforts of local heliport task forces, established under HAI's Heliports and Airways Committee (HAC). Ms Nickolaisen was aviation field representative for the Arizona Department of Transportation.

● Mr Emmett H. Sellars, general manager of sales for Goodyear's replacement tire sales division, has been appointed vice president of tire sales and marketing for GOODYEAR INTERNATIONAL CORP from November 1. Mr Sellars replaces Mr Bert H. Smith who is to take early retirement. As a result of the Sellars appointment, Goodyear's U.S. replacement tire division has been reorganised. Mr Donald E. Salyers becomes general manager of sales and Mr R. Mel Morrison general manager of company-owned outlets.

● Mr Ole K. Roed has been appointed managing director of BERGEN BANK INTERNATIONAL in Luxembourg. He was deputy managing director of Banque Nordeurope.

● PALL CORPORATION, of Glen Cove, NY, has appointed two corporate vice-president. Mr Arnold Weiner, formerly an officer of a number of its subsidiaries, has become vice-president—Asia. Mr Eric Krasnoff, director of administration, has been named vice-president—administration.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amex O/S Fin. 10¼ 90	100	92⅝	93	−0⅛	+0⅛	11.97
Bk. of Amer. 8 88 XW	190	*†85	86½	0	0	12.43
Bk. of Tokyo Hd. 11 90	100	93¼	93¾	−0½	+0⅛	12.47
Brit. Col. Hyd. 10¼ 88	200	95⅝	96⅛	−0⅛	+0½	11.43
CCCE 11⅜ 97	100	92⅛	92⅝	0	+0⅝	12.92
CIBC 11 90	75	90⅞	91⅛	−0⅛	+0⅛	13.14
Citicorp O/S 10⅝ 90	100	91⅛	92⅛	+0⅛	+1⅛	12.18
Coca Cola Int. 9⅞ 92	100	91½	92	+0⅞	+1⅛	11.39
Cr. Suisse Bah. 10⅞ 90	150	†94	94½	−0⅛	+0⅛	11.78
Credit Suisse 10½ 89	100	†95⅛	95⅝	0	+0⅜	11.52
Den Norsk Crd. 11⅛ 93	50	91⅛	92⅛	0	+0⅛	12.68
Du Pont 11⅜ 95	150	97⅜	98⅛	−0⅛	+0⅛	11.57
ECSC 11⅞ 90	75	98⅛	98⅝	−0⅛	+1	12.19
EDC 10¾ 88	100	96⅛	96⅝	−0⅛	+0⅛	11.82
EDC 11⅜ 87	100	99⅛	99⅝	+0⅛	+0⅜	11.88
EDF 11⅛ 93	100	90⅞	91½	−0⅛	+0⅜	12.80
EEC 10⅝ 95	75	87⅞	88⅛	−0⅛	+0⅛	12.70
EEC 11 87	350	97⅛	98	−0⅛	+0⅛	11.73
EIB 10¾ 93	200	91⅛	91⅝	0	+0⅛	12.30
EIB 11 91	125	93⅛	93⅞	0	+0⅛	12.32
Electrolux 10⅞ 90	50	91	91⅛	+0⅛	+0⅞	13.47
Enserch Fin. 11⅜ 93	100	92⅛	93⅛	−0⅛	+1	12.90
Fuji Int. Fin. 10⅛ 90	100	†91⅛	91⅝	−0⅛	+0½	12.87
Gen. Elec. Credit 9¾ 91	100	90⅛	90⅝	0	+1⅛	11.67
GMAC O/S Fin. 10½ 90	200	95⅛	96⅛	+0⅛	+0⅞	11.53
Honeywell Int. 10⅛ 90	100	96⅞	97⅛	0	+0⅞	11.36
Ind. Bk. Japan 10⅞ 88	100	95⅛	96⅞	−0⅛	+0⅛	12.12
Japan Air Lines 10⅞ 98	42	90⅛	90⅝	0	+1	12.28
Japan Air Lines 11 93	75	93⅝	94⅛	0	+0⅞	12.06
J. P. Mrgn. 11⅛ 90 XW	150	97⅞	98⅛	0	+0⅜	11.33
Levi Strauss Int. 11 90	75	95	95⅞	0	+1⅛	12.04
LTCB 10⅝ 90	100	90⅞	91⅛	−0⅞	+0⅛	12.80
Merrill Lynch 10⅛ 90	200	93½	94	+0⅛	+1⅛	12.01
Midland Int. F. 11½ 92	150	95⅝	96	+0⅛	+0⅛	12.27
Mitsubishi Con. 10⅞ 90	100	92⅞	93⅛	−0⅛	+1	12.00
Mitsubishi Fin. 11⅛ 90	100	94⅛	94⅝	−0⅛	+0⅛	12.63
Nippon Credit 11 90	100	91⅞	92⅛	+0⅛	+0⅞	12.79
Nippon Credit 11¼ 93	100	92⅛	92⅝	0	+0⅝	12.65
OKB 10 91	100	88⅞	89⅜	−0⅛	+0⅛	12.25
Ontario Hydro 10¾ 90	250	92⅛	92⅞	0	+0⅛	11.88
Ontario Hydro 11⅜ 89	200	98⅛	98⅝	0	0	11.57
Ontario Hydro 12⅜ 92	200	102⅛	102⅞	0	+0⅛	12.24
Prudential O/S 10¾ 93	100	94⅛	94⅝	0	+0⅞	11.00
Prudential O/S 12⅜ 87	150	103⅞	104⅛	0	+0⅛	11.49
Saskrchwn. Pr. 10⅞ 90	125	93⅛	94⅛	−0⅛	+0⅜	12.13
SNCF 11⅞ 93	100	94⅝	95⅛	−0⅛	+0⅛	12.42
S. Cal. Edison 10½ 90	75	94⅛	94⅞	0	+1	11.88
Sumitomo Fin. 10⅝ 90	100	91⅛	91⅜	−0⅛	+0⅜	12.80
Swiss Bk. Con. 10⅛ 90	125	†95⅛	95⅝	0	+0⅞	11.25
Texaco Capital 9¾ 90	150	92½	93	+0⅛	+1	11.36
UBS 10 88	100	95⅞	96⅛	−0⅛	0	11.08
UBS 11 89	150	99⅝	100⅛	0	−0⅞	10.88
Westpac Int. Fin 11 90	100	*†90½	91	0	0	13.13
World Bank 10⅞ 90	150	95⅛	95⅝	+0⅞	+1⅛	11.66
World Bank 10⅞ 93	100	92½	93	−0⅛	+0⅝	12.17
World Bank 11⅜ 88	100	97⅛	97⅞	0	+1⅛	11.90
World Bank 11½ 90	190	96½	97	−0⅛	+0⅜	12.21

Average price changes... On day 0 on week +0⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Air Canada 7⅜ 93	100	97⅝	98⅛	0	−0⅛	7.67
ANAS 8¾ 88	100	99½	100	0	+0⅛	8.30
Austria, Rep. 7⅜ 89	100	90⅞	98⅞	−0⅛	0	7.92
Austria, Rep. 8 93	100	99⅝	100⅛	−0⅛	−0⅛	8.01
Avon Int. Fin 7½ 93	100	97⅛	97⅞	0	+0⅛	7.88
BFCE 8¾ 90	150	99⅛	99⅜	−0⅛	−0⅛	8.34
Cama. T. N. Esp 9¼ 93	100	94½	95⅛	0	0	9.29
Deuts. Bk. 3⅞ 91 WW	240	106⅝	107⅛	0	+0⅛	2.76
Deuts. Bank 3⅞ 91 XW	240	80	80⅜	0	−0⅛	7.15
Dresdner Fin. 4 90 WW	250	108⅛	109⅛	−0⅛	+0⅛	2.60
Dresdner Fin. 4 90 XW	250	82⅞	83⅛	−0⅛	−0⅛	7.20
ECSC 8 90	190	99⅛	99⅞	−0⅛	−0⅛	8.07
EEC 8⅛ 93	250	100	100½	−0⅛	−0⅛	8.20
Eurofima 7½ 90	100	97⅝	98⅛	−0⅛	0	7.88
Finland Rep. 7½ 88	150	98⅝	99⅛	0	+0⅛	7.75
Int.-Am. Dv. Bk. 7¾ 93	200	94⅛	95⅛	+0⅛	+0⅛	8.50
Int. Standard Elc. 7⅞ 93	100	98⅛	99⅞	0	+0⅛	7.96
Japan Devt. Bk. 7⅞ 90	100	98⅞	99⅜	0	+0⅛	7.85
Kobe City 7 93	120	95	95½	0	+0⅛	7.70
LTCB 8 90	100	99	99½	−0⅛	+0⅛	8.14
Renault Acceptnce. 8 90	150	97⅛	97⅜	0	0	8.52
OOF France 7⅞ 93	100	96⅛	96⅞	−0⅛	+0⅛	9.39
S. African Tran. 8¼ 90	100	98⅝	99⅛	0	−0⅛	8.54
Volkswagen Int. 7¾ 93	200	94⅞	95⅛	0	+0⅛	7.99
World Bank 7⅞ 90	250	96½	97	0	+0⅛	8.13
World Bank 7⅞ 93	300	95⅛	95⅝	−0⅛	0	8.20

Average price changes... On day −0⅛ on week 0

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Akzo 5⅝ 93	100	98½	98⅞	0	+0⅛	5.81
Bank of Tokyo 6 91	100	101⅛	101⅝	−0⅛	−0⅛	5.76
Bergen, City of 5⅝ 95	40	99	99⅛	0	0	5.86
Carls-Tuborg B. 5⅝ 93	80	101⅝	102	+0½	+0⅛	5.49
Chujitsuyo Co. 5⅞ 93	50	†97	97⅛	+0⅛	0	6.26
Denmark 6⅛ 91	100	101½	101⅞	0	0	5.10
EDC 5⅝ 91	100	98	98⅛	−0⅛	0	5.68
EIB 5⅝ 93	100	99	99½	−0⅛	0	5.87
Ex.-Im. Bk. Jap. 5⅝ 91	100	98	98⅛	0	0	5.93
Ind. Fd. Finland 6⅛ 91	40	100⅛	100⅝	−0⅛	+0⅛	6.17
Int.-Am. Dv. Bk. 6⅛ 93	100	101⅛	101⅝	+0⅛	+0⅛	5.90
Japan Dev. Bank 5½ 93	100	97⅞	98⅛	−0⅛	−0⅛	5.77
Kansai Elec. Pwr. 6 91	100	101⅛	101½	−0⅛	−0⅛	5.77
Kawasaki Steel 6⅛ 91	100	101⅛	101⅝	0	−0⅛	5.88
Montreal Urban 6⅛ 93	100	100⅛	100⅞	0	+0⅛	5.89
Mount Isa Fin. 6 93	100	102⅛	102⅞	0	+0⅛	5.90
Nisshin Steel 6⅛ 91	100	99⅝	100	0	+0⅛	6.27
Norsk Hydro 5½ 98	100	97	97⅛	−0⅛	−0⅛	5.78
Osterr. Draukraft 6 93	100	102⅛	102⅝	0	+0⅛	5.96
Osterr. Post 6⅛ 91	100	102⅞	102⅝	0	0	5.69
Quebec Hydro 5½ 93	100	100½	100⅞	0	−0⅛	5.41
Sekisui House 6 93	100	101⅛	101⅝	−0⅛	−0⅛	5.82
Sumitomo M. Ind. 6 91	100	101¼	101½	0	+0⅛	5.77
Tohoku El. Power 6 93	100	100½	100¾	+0⅛	+0⅛	5.91
Trizec Corpn. 6¼ 91	100	101½	102	+0⅛	−0⅛	5.95
World Bank 5⅝ 93	100	97	97¼	0	0	6.02

Average price changes...On day 0 on week 0

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Australia 8⅛ 92	15	103⅞	104⅛	0	+0⅛	7.97
EIB 8⅛ 92	15	101⅛	102⅛	0	−0⅛	7.92
Japan Airlines 7⅝ 87	8	†101⅛	102⅛	+0⅛	+0⅜	7.10
New Zealand 7⅞ 88	15	101½	102	0	+0⅛	7.25
World Bank 8⅛ 92	20	102⅞	103½	+0⅛	+0⅛	7.84

Average price changes... On day +0⅛ on week +0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
British Col. 11⅜ 93 C$	25	†94	94½	0	+0⅛	12.79
Cn. Pc. Scs. 11⅞ 90 C$	75	†98	98⅞	0	0	12.24
Chrb. France 11⅞ 95 C$	40	†93⅝	94⅛	0	+0⅛	12.89
Norcen 12⅜ 93 C$	60	†95	95½	+0⅛	+0⅛	13.64
Quebec Prov. 12 93 C$	50	†98⅛	99⅛	+0⅛	−0⅛	12.97
TD Mt. Con. 12½ 88 C$	40	†98⅛	98⅝	0	−0⅛	12.25
Xerox Conodo 12 88 C$	00	†99	99½	+1	+0½	12.21
Fommarks 11½ 99 ECU	00	102⅛	103⅛	0	+0⅛	11.06
Svonska 11⅛ 91 ECU	00	99⅞	100	0	+0⅞	11.30
Consol. Foods 7¾ 88 Fl	100	95	95½	0	+0⅛	8.53
Elect. Supply 8¾ 88 Fl	75	96⅞	96⅞	0	+0⅛	9.79
Nederland Gas 7⅛ 88 Fl	100	96	98½	0	+0⅛	7.96
Philips Lampo 7¾ 98 Fl	100	97	97½	+0⅛	+0⅛	7.98
PHP 8⅝ 88 Fl	60	99⅛	99⅞	0	+0⅛	8.84
Sw. Ex. Cred. 7⅜ 88 Fl	100	94⅝	95⅜	0	−0⅛	9.15
OKB 14 86 FFr	400	100⅞	101⅞	0	+0⅛	13.18
Solvay et C. 14¾ 86 FFr	200	101⅛	102⅛	0	+0⅜	13.52
BFCE 11½ 88 £	50	96⅞	97⅜	0	−0⅛	12.26
British Oxyg. 11⅛ 91 £	50	100⅛	100⅞	+0⅛	+0⅜	11.62
CEPME 11⅛ 85 £	35	†98½	99½	0	0	11.39
EEC 11⅞ 91 £	90	100⅛	100⅞	−0⅛	0	11.74
Fin. for Ind. 10⅛ 90 £	30	95	95⅛	−0⅛	+0⅛	11.50
Fin. for Ind. 12⅛ 88 £	30	102⅞	103⅞	0	−0⅛	11.33
F. Met. Oranji. 12⅝ 92 £	30	101½	102⅛	−0⅛	+0⅛	12.28
Gen. Elec. Co. 12½ 89 £	50	102½	103⅛	−0⅛	0	11.05
Mort. Bk. Fin. 11⅜ 89 £	15	90	97	0	−0⅛	12.57
Norsk Hydro 12 90 £	30	101⅛	102⅛	0	+0⅛	11.61
Quebec 14⅛ 89 £	30	108⅞	109⅛	0	+0⅜	12.26
SNCF 11½ 98 £	30	96½	97⅛	0	+0⅛	12.23
Sweden 11⅜ 93 £	90	93½	94⅛	−0⅛	+0⅛	12.35
Sw. Ex. Cred. 11⅞ 88 £	30	96⅝	97⅛	0	+0⅛	12.08
World Bank 11⅛ 88 £	100	97⅛	98	0	+0⅛	11.78
World Bank 11⅜ 91 £	75	99⅜	100	−0⅛	+0⅛	11.42
Euratom 11 93 LuxFr	500	102⅛	103⅞	0	−1⅞	10.48
Europarat 10⅜ 93 LuxFr	600	102⅛	103⅛	0	0	10.29

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
BFCE 5⅛ 87	0⅛	95⅛	99⅝	27/1	10⅛	10.93
BFCE 5⅛ 88	0⅛	98⅞	99⅛	20/1	10.15	10.23
Caisse Nat. Tele. 5¼ 90	0⅛	98	98⅛	21/10	9.56	9.65
CCF 5¼ 95	0⅛	99	99⅛	7/10	10.19	10.28
CCF 5¼ 98	0⅛	98⅝	98⅞	24/9	9.94	9.96
CEPME 5¼ 88 WW	0⅛	99½	100	3/12	10.56	10.59
CEPME 5⅛ 92	0⅛	98½	99⅛	10/12	10½	10.54
Chemical NY 5¼ 94	‡0⅛	100½	100⅛	23/9	10.82	10.75
CNCA 5¼ 95 XW	0⅛	99	99⅛	7/12	10	10.09
CNT 5¼ 91	0⅛	98⅛	99	0/11	9⅛	8.36
Credit Agricole 5¼ 97	0⅛	98⅞	99½	24/9	10	10.06
Credit Lyonnais 5⅛ 94	0⅛	99⅜	99⅛	5/1	10.31	10.39
Credit Lyonnais 5⅛ 97	0⅛	99	99⅛	1/10	10.06	10.15
Credit Nat. 5⅛ 94	0⅛	98	99½	9/9	9⅛	8.32
EDF 5⅛ 95 XW	0⅛	99⅛	99⅞	10/2	11⅛	11.40
EEC 5 90	0⅛	99⅝	100	5/1	10.19	10.20
Kansallis Osake 5½ 92	0⅛	100⅛	100⅛	9/11	9⅛	9.10
Long Term Credit 5⅛ 92	0⅛	99⅞	100⅛	27/11	9⅝	9.75
J. P. Morgan 5⅛ 97	§0⅛	100⅛	100⅞	12/11	10.81	10.73
New Zealand 5⅛ 87	0⅛	100⅛	100⅛	7/10	10.06	10.04
NZ Steel Dev. 5⅛ 92	0⅛	100	100⅛	22/12	10⅛	10.22
Nippon Credit 5⅛ 90	0⅛	100⅛	100⅛	10/2	11⅛	11.19
Societe Gen. 5⅛ 90 XW	0⅛	98⅞	99⅛	9/11	9⅛	9.22
Societe Generale 5⅛ 95	0⅛	98⅞	99⅛	1/3	10.31	10.36
Sweden 5⅛ 88	0⅛	99⅞	100⅛	26/2	10.19	10.19
Sweden 5⅛ 93	0⅛	100⅛	100½	3/2	11.19	11.15

Average price changes...On day 0 on week +0⅛

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Bridgestone Tire 5½ 96	3/82	470	104⅛	105⅞	−0⅛	0.10
Canon 7 97	7/82	748.3	228⅞	230⅜	−4⅞	16.42
Daiwa Sec. Co. 5½ 96	10/83	508	96⅝	98	−0⅛	1.37
Hitachi Cable 5⅛ 96	2/82	510	107	108½	−1⅛	10.74
Honda Motor 5⅛ 98	6/83	884	98⅛	99⅛	+0⅛	4.35
Honda Motor 5⅛ 97	3/82	759.0	113⅞	115⅛	+0⅞	3.60
Kumagai Gumi 6½ 97	10/82	400	119⅞	121⅛	−1⅞	−1.00
Kyowa Hakko 6⅛ 97	2/83	782	115⅞	117⅛	+0½	14.20
Minebea Co. 5½ 98	5/83	667	128⅛	129⅛	−0⅛	−0.36
Mitsubishi Elec. 5⅛ 96	6/83	396	108⅞	109⅞	−0⅞	6.98
Nippon Electric 6⅛ 97	2/82	765.9	184⅛	186⅛	−1⅞	5.33
Nippon Oil Co. 5½ 98	4/83	984	[illegible]	105⅛	+2⅛	14.24
Nissan Motor 5⅛ 98	4/83	770	89⅛	90⅛	−0⅛	−2.14
Olympus Optic. 6⅛ 97	12/82	1331	102⅞	103⅞	−0⅛	9.73
Orient Finance 5⅛ 97	3/82	927.2	92⅛	93⅜	−0⅛	12.37
Orient Leasing 5⅛ 98	8/83	2880	94⅛	95⅛	−0⅛	−4.15
Secom 5 98	11/93	2920	121⅛	122⅛	−1⅞	3.84
Sumitomo Elec. 5⅞ 97	3/02	577.3	110⅛	111⅛	−0⅞	5.19
Sumitomo Met 5⅛ 95	10/81	296.1	69⅛	71⅛	−0⅛	32.34
Yamaichi Sec. Co. 5 98	9/83	472	93⅝	94⅞	−0⅛	0.20
NEC Cpn. 3⅞ 93 SwFr	8/83	978	150½	152⅛	0	−1.70
Sanyo Elec. 3½ 93 SwFr	5/83	501	107	109	0	19.01
Konishiroku 6⅛ 98 DM	6/82	816	118⅛	120	+0⅞	1.49
Mitsubishi H. 0 89 DM	2/82	263	108⅞	110½	−2⅞	6.52
Sum Realty 8⅛ 92 DM	2/93	365	117⅝	118⅝	+1⅛	−1.45

EUROBOND TURNOVER

(nominal value in $m)

	Cedel	Euro-clear
U.S. $ bonds		
Last week	5,911.1	7,491.4
Previous week	7,298.2	12,478.6
Other bonds		
Last week	1,053.9	495.6
Previous week	1,096.5	543.9

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change over week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg.day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Chase Manhattan; Citicorp International Bank; Credit Commercial de France (Securities) London; Daiwa Europe NV; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nomura International; Orion Royal Bank; Robert Fleming and Co.; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on September 9

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices September 9

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
17¼	6¼	AAR	.44	2.6	21	45	15	14⅞	15	+ ⅛
37⅞	29½	ACF	1.40	3.7	45	912	u38	36	37⅞	+ 1⅛
20	14½	AMF	.50	3.1		459	16½	16	16	− ⅛
38⅞	13¾	AMR Cp			46	1157	30⅝	30¼	30½	− ¼
18⅝	14⅛	AMR	pf2.18	12		z87	18⅛	18	18⅛	+ ⅛
35½	24⅝	AMR	pf2.13	8.2		65	34¼	33⅞	34⅛	− ⅛
15½	2½	APL				292	u15¼	15½	15½	+ ⅛
55	31¼	ARA	2.05	3.9	13	258	52	51¼	52	+ ½
79⅞	42⅞	ASA	3a	4.4		146	68½	67½	67½	− ⅛
33¾	8⅛	AVX	s .32	1.2	68	43	27¼	27⅛	27¼	+ ⅛
50¾	34¼	AbtLab	1	2.1	18	292	48⅝	48¼	48½	+ ⅛
30⅛	24	AccoW	n .50	2.0	19	41	25⅝	25	25⅛	− ⅛
27½	16¾	AcmeC	.40	1.7		26	24⅛	23⅞	24⅛	− ⅛
14⅞	6⅞	AcmeE	.32b	2.8	291	3	11⅝	11½	11⅝	
21½	5¾	AdmDg	.04	.2	17	x32	21	20⅝	20¾	− ⅛
17⅞	14	AdaEx	1.73e	10		90	17¼	16⅝	17	+ ⅛
19⅝	6⅞	AdmMl	.24	1.4	9	64	17⅝	16⅞	17	
29	12⅞	Advest	s .16	.6	9	47	25½	25¼	25¼	− ⅛
34⅞	6⅛	AMD	s		65	3032	32⅛	30	30	− 2
44⅝	32⅞	AetnLf	2.64	7.2	7	x4827	37	36½	36⅞	
65	52½	AetL	pf5.18e	9.2		x314	56⅝	56⅝	56½	+ ⅛
40½	13½	Ahmns	.60	2.1	17	1160	29¼	28¼	28¾	+ ½
7⅛	2⅝	Aileen				92	5⅛	5½	5⅛	+ ⅛
50⅝	25⅛	AirPrd	1	2.0	14	808	49⅞	49⅛	49¼	+ ⅝
27⅞	12½	AirbFrt	.60	2.6	23	53	23¼	23⅛	23⅛	
3⅞	2	AlMoa	n		16	281	2⅞	2⅞	2⅞	− ⅛
33½	26½	AlaP	pfA3.92	13		2	30	30	30	
7⅞	6⅛	AlaP	dpf.87	13		24	6⅞	6⅞	6⅞	
76	55½	AlaP	pf8.28	13		z120	63	63	63	

Continued on Page 22

Closing prices September 9

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

Continued on Page 23

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued from Page 21

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

Continued on Page 23

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a—dividend also extra(s). b—annual rate of dividend plus stock dividend. c—liquidating dividend. cld—called. d—new yearly low. e—dividend declared or paid in preceding 12 months. g—dividend in Canadian funds, subject to 15% non-residence tax. i—dividend declared after split-up or stock dividend. j—dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k—dividend declared or paid this year, an accumulative issue with dividends in arrears. n—new issue in the past 52 weeks. The high-low range begins with the start of trading. nd—next day delivery. P/E—price-earnings ratio. r—dividend declared or paid in preceding 12 months, plus stock dividend. s—stock split. Dividends begins with date of split. sls—sales. t—dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u—new yearly high. v—trading halted. vi—in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd—when distributed. wi—when issued. ww—with warrants. x—ex-dividend or ex-rights. xdis—ex-distribution. xw—without warrants. y—ex-dividend and sales in full. yld—yield. z—sales in full.

هكذا من الأصل

WORLD STOCK MARKETS

Indices

NEW YORK — DOW JONES

	Sept. 9	Sept. 8	Sept. 7	Sept. 6	Sept. 2	Sept. 1	1983 High	1983 Low	Since C'mpil'tn High	Since C'mpil'tn Low
● Industr'ls	1238.74	1249.14	1244.11	1238.72	1215.45	1206.81	1248.30 (16/6)	1027.04 (18/1)	1246.80 (16/6/83)	41.22 (2/7/32)
H'me Bnds	70.95	70.85	70.89	70.92	70.73	70.85	77.84 (13/5)	69.85 (6/8)	—	—
Transport	569.88	578.58	572.47	570.36	558.64	553.32	595.65 (27/6)	434.24 (3/1)	580.65 (27/6/83)	19.32 (8/7/32)
Utilities	131.17	131.12	130.97	130.83	130.11	129.87	132.80 (26/7)	119.51 (3/1)	183.32 (28/4/69)	10.5 (28/4/42)
Trading Vol 000's	77,938	79,250	94,240	87,509	59,300	76,120	—	—	—	—

● Day's high 1959.74 (1252.95) low 1233.33 (1232.83)

Indust'l div. yield %	Sept. 9	Aug. 26	Aug. 19	Year ago (Approx)
	4.57	4.66	4.65	6.89

STANDARD AND POORS

	Sept. 9	Sept. 8	Sept. 7	Sept. 6	Sept. 2	Sept. 1	1983 High	1983 Low	Since Cmpil'tn High	Since Cmpil'tn Low
Indust'ls	188.49	189.45	188.95	185.73	186.38	185.42	195.22 (22/6)	164.95 (6/1)	195.22 (22/6/83)	6.62 (30/6/32)
Comp'site	188.92	187.92	187.99	187.89	165.00	164.25	170.99 (22/6)	138.34 (3/1)	170.99 (22/6/83)	4.40 (1/6/32)

	Sept. 7	Aug. 31	Aug. 24	Year ago (Approx)
‡Indust'l div. yield %	5.89	3.98	4.06	5.24
Indust'l P/E ratio	14.58	14.32	14.02	9.00
Long Gov. Bond yield	11.61	11.86	11.40	11.96

N.Y.S.E. ALL COMMON

Sept. 9	Sept. 8	Sept. 7	Sept. 6	1983 High	1983 Low
96.54	96.95	96.96	96.84	99.01 (22/6)	80.92 (24/1)

Rises and Falls	Sept. 9	Sept. 8	Sept. 7
Issues Traded	1,929	1,902	1,955
Rises	724	851	883
Falls	785	676	711
Unchanged	415	375	362
New Highs	72	49	77
New Lows	9	4	6

MONTREAL

	Sept. 9	Sept. 8	Sept. 7	Sept. 6	1983 High	1983 Low
Industrial	462.95	460.86	468.89	458.12	468.86 (6/9)	351.18 (4/1)
Combined	432.79	431.89	430.84	428.14	451.89 (8/9)	326.12 (4/1)
TORONTO Composite	2577.09	2578.1	2582.7	2553.7	2578.2 (8/9)	1949.8 (4/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Chem. Sham	2,030,500	26¼	+ ½	Exxon	944,400	39¼	+ ½
LTV	1,238,600	17	+ ¼	Mer. Lynch	921,700	42	−2
Revlon	1,222,100	31⅛	+ ⅜	ATT	860,800	66½	+ ¼
Philip Mor.	1,031,700	63¾	—	Gulf Oil	810,200	41½	− ⅛
Noast Util	971,500	12¼	—	Coleco Ind.	737,800	39⅛	−4¼

WORLD INDICES

	Sept. 9	Sept. 8	Sept. 7	Sept. 6	1983 High	1983 Low
AUSTRALIA						
All Ord. (1/1/80)	768.3	726.9	726.1	725.4	768.6 (9/9)	487.8 (4/1)
Metals & Mins. (1/1/80)	877.1	608.8	607.5	616.9	977.1 (5/9)	411.8 (4/1)
AUSTRIA						
Credit Aktien (2/1/62)	55.27	55.16	55.28	55.29	59.6 (5/6)	46.48 (15/2)
BELGIUM						
Belgian SE (31/12/63)	133.28	133.71	133.14	132.42	154.43 (11/6)	100.50 (4/1)
DENMARK						
Copenhagen SE (6/1/83)	196.85	196.74	196.98	196.79	198.88 (2/9)	100.68 (3/1)
FRANCE						
CAC General (31/12/82)	154.7	154.8	155.2	154.9	157.7 (25/6)	96.1 (5/1)
Ind Tendance (31/12/82)	145.7	145.4	145.7	144.6	146.3 (24/8)	98.9 (3/1)
GERMANY						
FAZ-Aktien (31/12/58)	311.48	313.85	312.94	315.75	331.65 (7/7)	241.89 (26/1)
Commerzbank (Dec 1953)	924.6	931.5	928.4	950.9	966.8 (7/7)	727.9 (26/1)
HONG KONG						
Hang Seng Bank (31/7/64)	(c)	822.75	938.87	921.83	1109.64 (21/7)	761.61 (4/1)
ITALY						
Banco Comm Ital. (1972)	199.93	198.16	200.57	199.09	214.08 (21/3)	168.45 (18/1)
JAPAN(**)						
Dow Average (16/5/49)	9349.81	9332.47	9355.88	9255.11	9356.88 (7/9)	7803.16 (25/1)
Tokyo New SE (4/1/68)	684.6	686.32	686.55	682.44	686.55 (7/9)	574.51 (25/1)
NETHERLANDS						
ANP-CBS General (1970)	139.5	140.8	160.4	139.8	148.4 (22/8)	100.1 (4/1)
ANP-CBS Indust (1970)	112	112.5	111.8	111.5	116.5 (22/8)	83.5 (4/1)
NORWAY						
Oslo SE (4/1/83)	208.45	209.34	210.99	206.67	214.45 (16/8)	99.81 (4/1)
SINGAPORE						
Straights Times (1966)	967.25	972.04	974.11	972.48	992.62 (25/6)	712.29 (5/1)
SOUTH AFRICA						
Gold (1958)	902.5	964.4	966.5	969.5	1053.6 (11/2)	694.3 (28/6)
Industrial (1958)	885.8	946.0	942.8	943.7	968.7 (28/6)	748.8 (3/1)
SPAIN						
Madrid SE (31/12/82)	(c)	114.28	113.57	113.28	120.62 (13/7)	98.32 (11/1)
SWEDEN						
Jacobson & P. (1/1/58)	491.18	1515.41	1522.86	1528.60	1528.60 (6/9)	899.16 (5/1)
SWITZERLAND						
SwissBankCpn. (31/12/58)	337.6	337.3	340.7	338.0	347.6 (4/8)	284.4 (4/1)
WORLD						
Capital Intl. (1/1/70)	—	186.7	180.6	169.5	162.7 (22/6)	154.3 (3/1)

(**) Saturday Sept. 3: Japan Dow 9224.77, TSE 678.55.

Base values of all indices are 100 except Australia All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto—1,000; the last named based on 1975. † Excluding bonds. ‡ 400 Industrials. § 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

CANADA

FRANCE

GERMANY

ITALY

NETHERLANDS

NORWAY

AUSTRALIA

SINGAPORE

SWEDEN

SWITZERLAND

HONG KONG

JAPAN

SOUTH AFRICA

SPAIN

NOTES:—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

AMERICAN STOCK EXCHANGE CLOSING PRICES

12 Month High Low Stock Div. Yld. P/E Sls 100s High Low Close Quote Ch'ge Prev. Close

Continued from Page 22

NEW YORK CLOSING PRICES

12 Month High Low Stock Div. Yld. P/E Sls 100s High Low Close Quote Ch'ge Prev. Close

Continued from Page 22

Copies of this prospectus, having attached thereto the documents specified herein, have been delivered to the Registrar of Companies for registration. Application has been made to the Council of The Stock Exchange for the grant of permission to deal in the Ordinary Shares of Flextech p.l.c. in the Unlisted Securities Market. It is emphasised that no application has been made for these securities to be admitted to listing. This document includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purposes of giving information with regard to Flextech p.l.c. The Directors have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein whether in fact or of opinion. All the Directors accept responsibility accordingly. The procedure for application is set out at the end of this document.

The Application List for the Ordinary Shares now being issued will open at 10.00 am on 15th September 1983 and may be closed at any time thereafter.

FLEXTECH p.l.c.

(Incorporated in England under the Companies Acts 1948 to 1967, Registered No. 1190025)

Issue of 4,000,000 Ordinary Shares of 10p each at 140p per share payable in full on application underwritten by

Investors in Industry Corporate Finance Limited

Directors

Arthur John Butterworth *(Chairman)*
Peter John Smith *(Deputy Chairman)*
Robert George Johnson, FCA *(Managing Director)*
Lieutenant-General Sir Napier Crookenden, KCB, DSO, OBE, DL
Duncan John Lloyd Fitzwilliams
Lawrence Victor Dolman Tindale, CBE, CA, CBIM
all of 14 King Street, London EC2V 8EA

Secretary and Registrar
C. N. Services Limited
57 London Wall London EC2M 5TP

Issuing House
Investors in Industry Corporate Finance Limited
91 Waterloo Road London SE1 8XP

Stockbrokers
Cazenove & Co.
12 Tokenhouse Yard London EC2R 7AN

Auditors and Reporting Accountants
Spicer and Pegler *Chartered Accountants*
St Mary Axe House
56-60 St Mary Axe London EC3A 8BJ

Solicitors to the Issue
Linklaters & Paines
Barrington House
59-67 Gresham Street London EC2V 7JA

Solicitors to the Company
Slaughter and May
35 Basinghall Street London EC2V 5DB

Principal Bankers
Williams & Glyn's Bank plc
67 Lombard Street London EC3P 3DL

Receiving Bankers
Williams & Glyn's Bank plc
New Issues Department
67 Lombard Street London EC3P 3DL

Share Capital

Authorised		Issued and now being issued fully paid
£2,350,000	in Ordinary Shares of 10p each	£1,800,448

The Ordinary Shares now being issued will rank *pari passu* in all respects with the Ordinary Shares of Flextech p.l.c. already in issue.

Indebtedness

Apart from intra-group indebtedness, as at 26th August 1983, Flextech p.l.c. and its subsidiaries had no loan capital (including term loans) outstanding or created but unissued, nor any mortgages, charges, other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits, hire purchase commitments or guarantees or other material contingent liabilities.

Definitions

In this document, the following expressions have the following meanings:

"Flextech"	Flextech p.l.c.
"Group"	Flextech p.l.c. and its subsidiaries
"IFP"	L'Institut Français du Pétrole
"Coflexip"	Coflexip S.A. and its subsidiaries
"Flexinvest"	Flextech-Flexinvest et Cie
"Expro"	Exploration and Production Services (Holdings) Limited and its subsidiaries
"Flexservice"	Flexservice N.V.
"Foraflex"	Foraflex S.A.
"Nortech"	Nortech Surveys (Canada) Inc.
"AED"	Advanced Energy Dynamics, Inc.
"ICFC"	The ICFC Division of Investors in Industry plc

Introduction

In 1974, L'Institut Français du Pétrole approached Cazenove & Co. with a view to seeking UK investment in new businesses and ventures connected with the French energy industry. Following this approach, Flextech was formed to take advantage of opportunities offered by IFP and to seek energy-related investments from other sources. IFP had been created by the French Government in 1945 to initiate and conduct research into projects for the development in France of industrial techniques in the petroleum industry.
The association with IFP resulted in Flextech making its first investment through a subscription for a minority participation in a French company, Coflexip S.A., which had been established in 1971 to manufacture and supply flexible pipe for the international oil industry. Flextech now has an effective 13.9% interest in the issued share capital of Coflexip and is also entitled, through Flexinvest, to receive a proportion of the royalties payable by Coflexip to IFP under a licence agreement giving Coflexip the right to manufacture and market the flexible pipe.
Flextech's other main investment is a holding of 26.7% of the issued ordinary share capital of Exploration and Production Services (Holdings) Limited which is the UK holding company of a group formed in 1973. This investment was made in 1979 following an introduction from ICFC, which has an interest in Expro of the same size. Expro provides specialised wireline and well-testing services, petroleum engineering consultancy, oil field production management and production logging services to the oil and gas industries.
Details of these and Flextech's other investments are described under "Investments" below.

Investment Policy

The policy of Flextech is to invest in energy-related businesses and ventures, normally through minority interests. Investments may be in established businesses or in start-up companies, including those exploiting new technologies, and are made wherever attractive opportunities occur. To date, investments have been made in the United Kingdom, France, the USA and Canada.
It is Flextech's policy to be represented on the Boards of companies in which it is invested and to participate in the making of policy decisions. Where possible, Flextech seeks to achieve related company status (see Accounting Policies in Appendix I) for its investments. It is not Flextech's policy to take legal or management control of any company in which investments are made. The Board maintains flexibility as to the amount it will invest in any one company or venture but not more than 20% of Flextech's gross assets will be invested in any one new investment.
It is the Board's policy to hold investments for the long term and there is no present intention to realise any of Flextech's principal assets.

Dividend Policy

The Directors intend recommending payment of dividends when Flextech's distributable reserves are, in their opinion, sufficient to enable the recommended level of dividend to be at least maintained in subsequent years. Taking into account a shortfall of distributable reserves of £264,537 at 31st May 1983, the Directors do not expect to be in a position to recommend the payment of a dividend in respect of the current year. This shortfall results from provisions for losses on investments having been charged to distributable reserves. Although surpluses on the realisation of investments can be offset against such losses, under Flextech's Articles of Association these surpluses may not be distributed by way of dividend.
It should be noted that a significant proportion of the Group's profits represents its share of the profits of related companies of which only a small part is currently received in the form of cash dividends and therefore credited to Flextech's distributable reserves.

Risk Factors

Flextech invests in both established businesses and in start-up companies, including those exploiting new technologies. Investment in start-ups and new technologies carries an inherently high degree of financial risk and it may be necessary to invest further funds at a later stage in order to maintain the viability of an enterprise or to realise its full potential.
Since a high proportion of Flextech's capital is invested overseas, fluctuations in exchange rates may have a material affect on future earnings and asset values.
At present, the Group's profits are substantially derived from two companies on whose performance its earnings are therefore heavily dependant.

SUMMARY

The following selected information is derived from the full text of this document and must be read in conjunction with the text.

Business
Flextech invests in energy-related businesses and ventures, including those exploiting new technologies. It seeks to obtain representation on the Boards of companies in which it is invested, to participate in the making of policy decisions and, where possible, to obtain related (associated) company status for its investments.
Flextech's two main investments are in Coflexip, a French manufacturer of flexible pipe for the international oil industry, and in Expro, a UK company which provides specialist petroleum engineering and production field services, also for the international oil industry. In addition, Flextech is entitled, through Flexinvest, to receive a proportion of royalties paid on sales of Coflexip's flexible pipe.

Profit record and earnings per Ordinary Share

	Years ended 31st May				
	1979 £'000	1980 £'000	1981 £'000	1982 £'000	1983 £'000
Royalties and other income less operating and other expenses	130	133	163	172	186
Share of profits in related companies	157	136	319	526	991
Profit before taxation and extraordinary charges	287	269	482	698	1,177
Earnings per Ordinary Share of 10p	1.4p	1.1p	3.4p	6.1p	6.7p

Note: A significant proportion of the Group's profits represents its share of the profits of related companies of which only a small part is currently received in the form of cash dividends.

Issue statistics

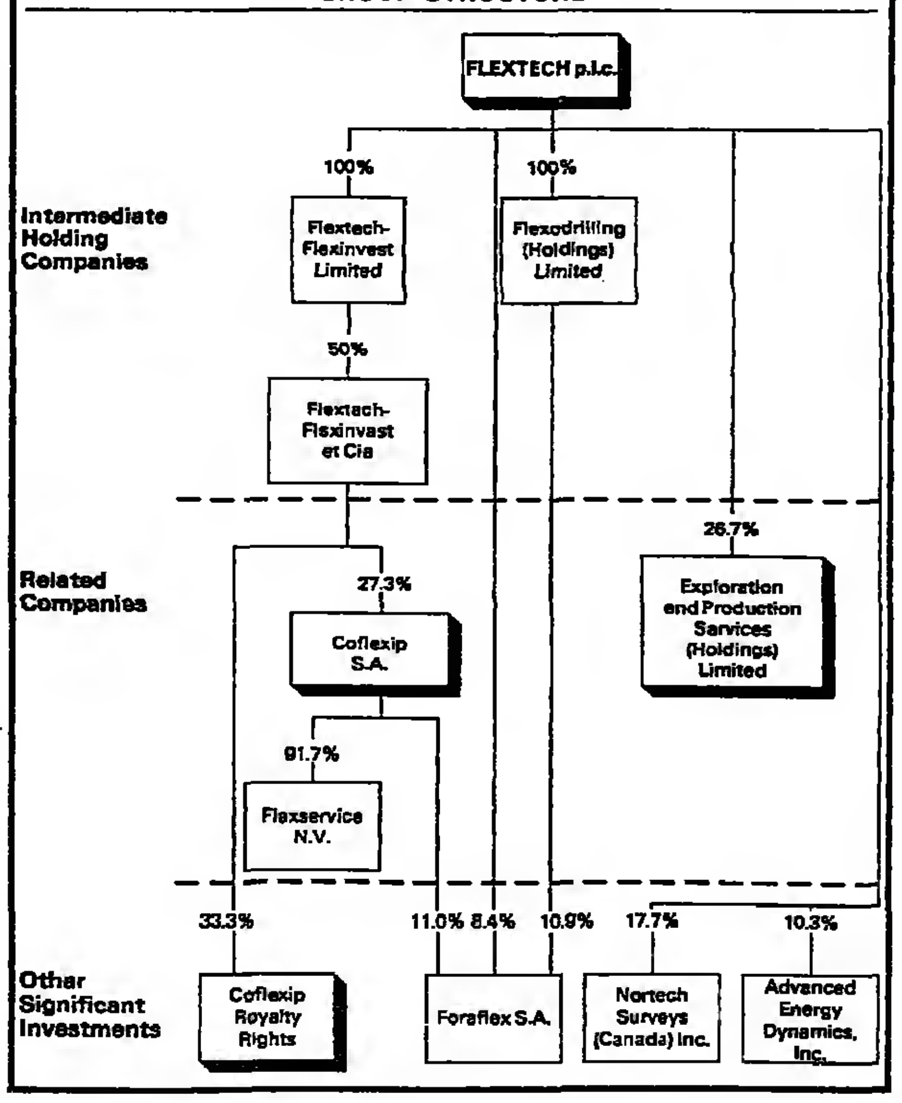
	Historic	Adjusted*
Earnings per Ordinary Share of 10p		
(a) on actual tax charge	6.7p	6.0p
(b) on notional 52% tax charge	5.1p	4.9p
Price Earnings ratio		
(a) on actual tax charge	20.9p	23.3p
(b) on notional 52% tax charge	27.5p	28.6p

**The adjustments made to the historic figures are set out in the section "Profits and Earnings per Share".*

Number of Ordinary Shares of 10p in issue and to be issued	18,004,485
Market capitalisation at the issue price	£25.2 million
Net asset value per Ordinary Share of 10p as at 31st May 1983 adjusted for the net proceeds of the issue	82.6p
Current dividend yield	nil

Issue proceeds
The net proceeds of the issue, which are estimated to amount to approximately £5 million, will be applied towards the making of further investments.

GROUP STRUCTURE



Investments

All Flextech's investments are in unlisted companies and a summary of the option and pre-emption rights in respect of its principal investments is set out in paragraph 7 of Appendix III.

Flexinvest
Through a wholly owned UK subsidiary, Flextech-Flexinvest Limited, Flextech owns 50% of the issued share capital of Flexinvest, the balance being owned as to 25% by IFP, 22.6% by the Société Générale group and 2.4% by the Banque Générale du Phénix. The cost of this investment was FF 3,160,000 which was invested in Coflexip in 1975. Flextech has also outstanding loans to Flexinvest totalling FF13.5 million which have been applied in making further investments in Coflexip. These loans are repayable between 1984 and 1989 but discussions are taking place which might lead to their replacement in part by subscriptions for additional share capital.
Flexinvest is a société en nom collectif ("SNC") established and managed in France. There is no exact equivalent in English law to this type of company since, although it has a separate legal personality from that of its members, they may be jointly and severally responsible for its liabilities and individually assessable to taxation on its profits. In particular, each member may be liable to third parties in respect of obligations undertaken by the management of the SNC provided they are within the objects set out in its statutes. It is for this reason that Flextech's interest is held through a wholly owned subsidiary. Under its statutes, Flexinvest is to be dissolved in 2006 unless its members agree to extend its life in accordance with those statutes.
The principal assets of Flexinvest comprise a 27.3% shareholding in Coflexip acquired between 1975 and 1983 for a total cost of approximately FF33 million and the right to participate in royalties payable by Coflexip to IFP which are described below. The distribution policy of Flexinvest is reviewed annually by its members and the recent practice has been to distribute approximately 75% of its profits.

Coflexip
Apart from Flexinvest, the shareholders in Coflexip are IFP (23.7%), Société Nationale Elf Aquitaine (22.2%), Compagnie Générale des Voitures (10.8%), and USINOR (10.0%) which are all controlled by the French Government, and Ugland Management Company (6.0%), which is part of a Norwegian shipping group.
Coflexip was established in 1971 to manufacture and market to the international oil industry a flexible pipe which had been developed and tested by IFP. The flexible pipe, made of steel and plastic to varying specifications, is produced in diameters ranging from one inch to 16 inches and in lengths up to several kilometres. It is used mainly for flowlines and water injection lines in the offshore production of oil and gas. Flowlines are used for carrying oil and gas from sub-sea well-heads to surface production facilities and between such facilities. Coflexip pipe is also used in short lengths for other oil field services, particularly those related to drilling. Although more expensive to produce than conventional rigid pipe, the advantages of flexible pipe are that it can be manufactured in longer unit sections and is easier to lay and bury, especially in deep water and close to existing production facilities. Coflexip pipe is used in most oil producing areas including Brazil, the Middle East, the North Sea, the West coast of Africa, the Mediterranean, India, the Far East and the USA.
Coflexip has not restricted its activities solely to the manufacture of flexible pipe but also provides specialist engineering and installation services. In line with this policy, Coflexip assisted in the formation of Flexservice N.V. in 1976 and took up a 20.5% interest, increasing its interest to 90.0% in December 1981 and to 91.7% in July 1982. Flexservice operates four vessels which lay and bury flexible pipe and electric cable and provide other services offshore. One of these vessels, wholly owned by Flexservice, is on charter to Petrobras, the Brazilian state-owned oil company, until January 1985. Two other vessels currently operate in the Middle East on short term charter. Flexservice owns 35% of one of these and has a lease on the other with an option to purchase. The fourth vessel is chartered by Flexservice, but will be returned to its owners following expiry of the charter on 25th September 1983.
Coflexip, which employs approximately 1,080 people, has a factory on a site comprising approximately 11 hectares at Le Trait on the Seine near Rouen with a deep water wharf providing ocean-going vessels with direct access. Although a 24 hour, seven day week is currently being worked, the existing maximum production capacity at Le Trait of 200 kilometres of flexible pipe per annum is insufficient to meet current demand. Production for 1983 is budgeted at 350 kilometres and is being met by sub-contracting part of the production process. In order to improve efficiency, the factory at Le Trait is being extended and the plant is being modernised. This will result in an increase in Coflexip's manufacturing capacity to a maximum of 370 kilometres per annum and enable additional large diameter pipe to be manufactured. The extension is expected to be fully operational by the middle of 1984.
At the invitation of Petrobras, Coflexip is considering the possibility of establishing a production facility in Brazil which it believes will help to secure its position in this important market area which at present accounts for approximately 50% of sales of flexible pipe. Coflexip is also developing its markets in other parts of the world.
Coflexip has a workshop in New Orleans where flexible pipe is cut to customers' requirements and end-fittings assembled. It is intended that in the near future this facility will be moved to a larger site in Houston, a major centre of the U.S. onshore oil industry.
The turnover and profits of Coflexip in its last five financial years were as follows:

	Years ended 31st December				
	1978 FF'000	1979 FF'000	1980 FF'000	1981 FF'000	1982 FF'000
Turnover	137,419	197,454	243,966	368,855	827,784
Profit before taxation	12,369	9,652	13,983	4,037	37,146

The above profits for the four years ended 31st December 1981 include Coflexip's share of the results of Flexservice on the basis that Flexservice was a related company of Coflexip until December 1981 when it became a subsidiary. In 1978 Coflexip held 20.5% of the issued share capital of Flexservice and increased this interest to 21.5% in 1979 at which level it was maintained until December 1981. The results of Flexservice have been fully consolidated and included in the above figures for one month in 1981 and for the whole of 1982.

The results of Flexservice over the same five year period were as follows:

	Years ended 31st December				
	1978 FF'000	1979 FF'000	1980 FF'000	1981 FF'000	1982 FF'000
Turnover	111,198	85,420	95,464	180,286	207,729
Profit/(loss) before taxation	16,959	(3,236)	(18,394)	(5,750)	9,973
Profit/(loss) attributable to Coflexip	3,475	(695)	(3,520)	(1,563)	9,088

The results of Flexservice for 1979 and 1980 were affected by weak demand and low prices coupled with high fixed costs. In 1981 and 1982 Coflexip and Flexservice were affected by problems arising from the design and specifications of a non-standard pipe used on a major contract in the Arabian Gulf, which gave rise to exceptional provisions in the accounts of Coflexip of some FF15 million and FF31 million respectively in each of those years. The contract has now been completed and further orders have since been placed with Coflexip by the same customer. To date, Coflexip has been awarded approximately FF32.9 million in respect of an insurance claim relating to this contract of which FF19.9 million is not reflected in the above figures as this was not agreed until after the 1982 accounts of Coflexip had been completed. However, Flextech's proportion of the total award has been included in the Group's results for the year ended 31st May 1983.

2
FLEXTECH p.l.c.

Incorporated in England under the Companies Acts 1948 to 1967, Registered No. [illegible]

Flextech's share of Coflexip's profits is based on its effective interest in Coflexip's equity in each of Coflexip's financial years; the interest was 9.2% throughout the year ended 31st December 1982. Accordingly, the Group's results for the year ended 31st May 1983 include only 9.2% of Coflexip's profits for the year ended 31st December 1982, although the share to be included in the current financial year will reflect the increase in the interest to 13.8% in March 1983.

Further financial information relating to Coflexip is set out in Appendix II.

Royalty Rights

Flexinvest is entitled to one-third of the royalties payable to IFP under a licence agreement between IFP and Coflexip granted in respect of the manufacture of the flexible pipe. The royalties payable by Coflexip are calculated at the rate of 5% on the invoiced price (excluding tax) of the flexible pipe supplied to customers and on the repair and refurbishment of such pipe. In the event of IFP granting further licences to Coflexip or any third party for the same purposes, Flexinvest will be entitled to receive a similar proportion of any royalty payments.

The royalties attributable to the Group in its last five financial years were as follows:

	Years ended 31st May				
	1979	1980	1981	1982	1983
	£'000	£'000	£'000	£'000	£'000
	100	133	149	204	310

IFP has undertaken to re-invest an amount equal to at least one half of the royalties paid by Coflexip in further research and development of flexible pipes.

Expro

Flextech owns 26.7% of the equity share capital of Expro which was acquired in 1979 for £166,667. Flextech also owns 500,000 12% Cumulative Redeemable Preference Shares of £1 each and £282,051 17% Loan Stock 1994 acquired at par. ICFC and London Trust PLC have similar holdings and the balance of the equity share capital is held by members of Expro's management.

Expro provides a range of specialised technical services to the oil industry, covering both the exploration and production phases of oilfield activity. These include wireline and well-testing, petroleum engineering consultancy, oilfield production and production logging services.

From its U.K. bases in Great Yarmouth, Aberdeen and Reading, Expro has expanded its operations internationally with operational bases established in Holland, Denmark, Egypt, Libya, Tunisia, Thailand and Malaysia and now has 515 employees. Nearly all the major international oil companies appear on Expro's customer list.

Well-testing, reservoir engineering, laboratory studies and, to some extent, wireline services are required for the evaluation of discovery and appraisal wells following drilling operations both on and offshore. The data gathered from these operations enables the operating company to formulate its investment plans for development drilling and the design, purchase and installation of producing facilities.

When wells are drilled for production, wireline services are required on a continuous basis for the installation and maintenance of sub-surface equipment inside the well bore. The wireline technique, which uses tools and instruments suspended on high tensile steel wire, is also necessary for the periodic measurement of pressure changes in the producing formation, the sampling of reservoir fluid and for the survey of the well tubing for corrosion. Expro has extended its wireline services into production logging to provide a record of flow characteristics from the reservoir.

Expro is currently the largest wireline contractor operating in the U.K. North Sea sector, providing its services on a long term contract basis to BP in the Forties and West Sole fields, Shell in the Cormorant and Dunlin fields, Britoil in the Thistle field and Phillips in the Maureen field.

For the provision of well-testing, wireline and production logging services Expro supplies specialised equipment, together with experienced field operating staff when required.

In 1975 Expro established a reservoir engineering laboratory in Reading to provide an independent U.K. source of Pressure/Volume/Temperature analyses which offers a full range of studies on oil, gas and gas condensates. A mobile laboratory has been developed and equipped to offer these facilities locally or at the well site. Expro also provides consultant reservoir engineers and petroleum engineers to operating companies on contract.

Expro has over 200 field staff contracted on a long term basis in the North Sea and overseas providing production services. Whilst the majority of these staff are employed on offshore production platform operations and maintenance, Expro's production services have been expanded to include the entire production management of oilfields. In 1982 Expro was awarded an important contract by Thai Shell Exploration and Production Company for the equipment design and procurement and initial operation of the Sirikit oilfield, north of Bangkok. In 1983 Expro was awarded the contract for the management of the Duyong gasfield off the Malaysian coast by Petronas Carigali, the operating subsidiary of the Malaysian state oil company.

Expro is the only wholly British owned company to provide such a range of services and was awarded the Queen's Award for Export Achievement in 1977 and 1981.

The turnover and profits of Expro in its last five financial years were as follows:

	Years ended 31st March				
	1979	1980	1981	1982	1983
	£'000	£'000	£'000	£'000	£'000
Turnover	3,658	4,680	7,099	12,296	16,899
Profit before taxation	324	414	637	1,765	2,091

A major part of Expro's income is invoiced in US dollars and it is Expro's policy to sell forward for sterling 50% of anticipated receipts.

Further financial information relating to Expro is set out in Appendix II.

AED

Flextech owns 10.3% of the present issued share capital of AED which was acquired in June 1983 for a consideration of US$800,000. AED, incorporated in 1979 and based near Boston, Massachusetts, has, since then, been developing an electrostatic process for cleaning bituminous coal. This process removes impurities which, when burnt with coal, are ash producing and, in the case of sulphur, turn to sulphur dioxide, a major cause of atmospheric pollution. The potential economic significance of AED's process is that it provides a method of improving the utilisation of coal-fired boilers by reducing the ash content of fuel burnt and by increasing the types of coal that can be used. A working laboratory model has been built and successfully tested and a full-scale demonstration unit is expected to be operational by the end of November 1983.

Nortech

Flextech owns 17.7% of the equity share capital of Nortech which was acquired in March 1983 for a consideration of Can.$666,000. Nortech was established to enable the management of the Shaltech division of Shell Canada Limited to acquire the principal assets and goodwill of that division, the business of which was founded in 1968. The divestment by Shell Canada Limited was in pursuance of a policy to dispose of activities outside its main oil and gas business. By employing advanced technology using satellites, Nortech provides geographical positioning control for surveys and for the accurate siting of offshore rigs. These services are provided principally to companies in the oil and gas industries and to Canadian and other government agencies. Nortech has established a research and development division to develop its existing technology and to extend its range of products and services. Two new products are currently being developed, a laser-based geographical contouring system and a low cost portable satellite-linked receiver system.

The shares in Nortech initially carry no voting rights but it has been agreed that Nortech should use its best endeavours to convert such shares into voting shares once all requisite approvals from the Canadian Foreign Investment Review Agency have been applied for and obtained.

Foraflex

Flextech and a wholly owned subsidiary, Flexodrilling (Holdings) Limited, together own 19% of the equity share capital of Foraflex in which Coflexip has a holding of 11%. Flextech's initial investment of £97,624 was made in March 1977 and further shares were acquired between March and June 1979 principally through the acquisition of the issued share capital of Flexodrilling (Holdings) Limited in consideration for the issue of 333,894 Ordinary Shares of 50p each in Flextech and through the subscription of new shares for £153,676 in cash. Foraflex was established in 1973 to develop and exploit a new drilling technique invented by IFP and which for the first time necessitated the use of flexible pipe. Although some of the advantages of this drilling system were proved after test programmes in the Groningen gasfield in Holland, certain technical problems remained and these, together with the postponement of a major project in Canada, resulted in its development being suspended in late 1980, further expenditure not being considered justified. The Group's investment in Foraflex has been written down to £48,500 representing its estimated net realisable value.

Others

Flextech has invested a total of £56,000 in two other investments, namely Charlton Thermosystems Limited and Progressive Production Technology S.A., both of which proved unsuccessful and have been written off in full. Charlton Thermosystems Limited is a UK company which developed a new form of electrical heating system and Progressive Production Technology S.A. provided sub-sea engineering services.

Profits and Earnings per Share

The following table is derived from the Accountants' Report set out in Appendix I:

	Years ended 31st May				
	1979	1980	1981	1982	1983
	£'000	£'000	£'000	£'000	£'000
Royalties and other income less operating and other expenses	130	133	163	172	186
Share of profits in related companies	157	136	319	526	991
Group profit before taxation	287	269	482	698	1,177
Taxation	(166)	(175)	(186)	(165)	(443)
Profit before extraordinary charges	121	94	296	533	734
Extraordinary charges	(12)	(343)	(161)	(30)	—
Profit/(loss) attributable to the members of Flextech	109	(249)	135	503	734
Dividend	(14)	—	—	—	—
Retained profit/(loss)	95	(249)	135	503	734
Retained profit/(loss) in:					
Flextech	30	(195)	(180)	5	56
Subsidiaries, Flexinvest and related companies	65	(54)	315	498	678
	95	(249)	135	503	734
Earnings per Ordinary Share of 10p	1.4p	1.1p	3.4p	6.1p	6.7p

Notes:

(i) The dividends paid or payable to the Group by related companies and incorporated in the financial statements of each of the years ended 31st May 1979 to 1983 have been as follows:

	1979	1980	1981	1982	1983
	£'000	£'000	£'000	£'000	£'000
Coflexip	35	30	34	23	31
Expro	—	—	—	44	60
	35	30	34	67	91

(ii) Earnings per Ordinary Share are based on profit before extraordinary charges and the weighted average of the number of shares in issue in each financial year.

(iii) The extraordinary charges comprise principally provisions against the investments in Foraflex (£478,000), Progressive Production Technology S.A. and Charlton Thermosystems Limited.

For purposes of illustration only, the following table sets out the profits and earnings per Ordinary Share for the year ended 31st May 1983, adjusted as follows:

1. Flextech's share of profits in Coflexip for the year ended 31st December 1982 reflecting the increase in its effective interest in Coflexip's equity from 9.2% to 13.6%.
2. Notional interest of 9.5% per annum being assumed on the net proceeds of the issue for the remainder of the current financial year.
3. Corporation tax at 52% being charged on the above notional interest.
4. The weighted average number of Ordinary Shares in issue in the current financial year reflecting the Ordinary Shares now being issued and assuming no further issue.

	£'000
Royalties and other income less operating and other expenses	523
Share of profit before taxation in related companies	1,192
Group profit before taxation	1,715
Taxation	708
Profit after Taxation	1,007
Earnings per Ordinary Share of 10p	6.0p

The PE ratios at the issue price based on the audited results for the year ended 31st May 1983 and the above adjusted results are as follows:

	Actual Tax Charge	Notional 52% Tax Charge
Historic	20.9	27.5
Adjusted	23.3	28.6

Net Asset Value

In accordance with Flextech's accounting policies, related companies are stated in the Group accounts on the basis of the attributable net assets, other investments at the lower of cost and Directors' valuation and the Coflexip royalty rights amortised over a 30 year period. Net asset value per Ordinary Share of 10p as at 31st May 1983 was 44.4p. Adjusted for the Ordinary Shares now being issued and the net proceeds of the issue, the net asset value per share increases to 62.6p.

The Directors consider that the realisable value of the investments in Coflexip and Expro is substantially in excess of their balance sheet values and the written down value of the investment in the Coflexip royalty rights does not reflect the value of the future cash flow which it is expected to generate.

Management and Operations

The members of the Board of Flextech are as follows:

A J Butterworth (aged 69) has been Chairman since 1975 and is a member of the Conseil d'Administration of Coflexip. From 1942 until 1974, he was Manager and subsequently Investment Director of The British Petroleum Pension Trust Limited and remains a member of its Investment Committee. He is Investment Adviser to King's College, Cambridge, a Director of New Cambridge Research Company Limited and "censeur" of Paribas Gestion, a French open-ended investment company.

P J Smith (aged 50) was appointed Deputy Chairman in August 1983, having been an alternate Director to A J Butterworth since 1975. He is a partner in Cazenove & Co. and is a Director of Frobisher Fund NV, Newmarket Company (1981) Limited and New Cambridge Research Company Limited.

R G Johnson (aged 36), Managing Director, qualified as a chartered accountant with Touche Ross & Co. before joining Cazenove & Co. in 1972 where he specialised in the oil industry. He left Cazenove & Co. in 1977 to join the Board of Flextech as Managing Director. He is a Director of Expro, Nortech and AED.

Lieutenant-General Sir Napier Crookenden (aged 68) joined the Board in 1978. He is a member of the South East Regional Board of Lloyds Bank Plc. His last two appointments in his Army career were Commandant of the Royal Military College of Science, Shrivenham, and Commander in Chief Western Command.

D J L Fitzwilliams (aged 40) joined the Board in 1976. He has been a Director of The Foreign and Colonial Investment Trust P.L.C. since 1973. He was one of the founders of Computer And Systems Engineering P.L.C. (CASE) of which he is Chairman and Ventura Link Limited of which he is a Director. He is now mainly involved in venture capital investment and is a Director of several other companies, including Anvil Petroleum plc and General Investors and Trustees plc.

L V D Tindale (aged 62) joined the Board in 1975. He is Deputy Chairman of Investors in Industry Group plc, Chairman of Edbro Holdings plc and a Director of several other companies including Britoil plc and Northern Engineering Industries P.L.C. He is currently also Chairman of the Council of the British Institute of Management.

Apart from Robert Johnson, all the Directors are non-executive. The Directors are responsible for formulating Flextech's overall investment policy and taking investment decisions. In investigating and appraising new investment opportunities, the Managing Director has made use of consultants, either independently or in cooperation with other investors. Two executives, aged 25 and 27, with experience of project appraisal and corporate planning, have recently been appointed to assist him in monitoring existing investments and in investigating and assessing new opportunities.

C.N. Services Limited provides company secretarial services at a current annual fee of £7,500 under a contract which may be terminated by six months' notice expiring at any time on or after 31st May 1984. Flextech operates from offices in King Street, London EC2 which are held on a lease expiring in 1988 at a current annual rental of £21,000 with a review in 1984.

Current Trading and Prospects

Coflexip's trading activity was at a high level during the first six months of its financial year to 31st December 1983 and the current state of the order book indicates that these trading conditions are likely to continue for the rest of the year. The medium term outlook is less predictable since the receipt of new orders is currently at a lower rate than at the corresponding time last year due to a downturn in offshore activity. Coflexip is concentrating on improving the efficiency of its business and on seeking, in conjunction with IFP, cheaper materials with which to manufacture its products. The extension of the Le Trait factory is expected to be fully operational by the middle of 1984 and Coflexip should be in a strong position to take advantage of any increase in the level of activity in the longer term.

Expro's revenue for the first quarter of its financial year to 31st March 1984 was ahead of that for the corresponding period last year. In spite of trading conditions remaining competitive, order books are at record levels.

Flextech's other investments are unlikely to contribute to Group earnings during the current year. Nortech is establishing itself in the Canadian and overseas markets and was recently awarded an important contract in connection with the surveying of a major new railway tunnel, the longest in North America, to be built under the Rocky Mountains. The development of AED's prototype equipment is running according to schedule and budget.

Although it is too early to predict the outcome for the current financial year, on the basis of present indications, the Directors are confident that Flextech will continue to make further progress.

Reasons for the Issue

To date, Flextech has raised approximately £4.7 million by means of private placings by Cazenove & Co., mainly with institutional investors, and by an underwritten offer to shareholders and dealings have taken place under The Stock Exchange's Rule 163(2)(a). Dealings on the Unlisted Securities Market will provide a wider market for Flextech's shares. It is intended that the net proceeds of the issue, estimated to amount to £5 million, together with cash on deposit of approximately £1 million, will be applied towards the making of further investments. The Directors consider it desirable for Flextech to have sufficient cash resources available to enable advantage to be taken of investment opportunities as and when they occur, whether in new ventures or in companies in which Flextech already has a shareholding. Pending long term investment, the net proceeds of the issue will be placed on deposit or invested in short dated securities.

The Directors of Flextech expect to maintain the close association with IFP and consider that their professional and personal contacts will continue to lead to suitable investment opportunities being introduced.

Appendix I: Accountants' Report

The following is a report from Spicer and Pegler, Chartered Accountants, the auditors and reporting accountants:—

St Mary Axe House
56-60 St Mary Axe
London EC3A 8BJ

The Directors
Flextech p.l.c.
The Directors
Investors in Industry Corporate Finance Limited

8th September 1983

Gentlemen,

We have examined the audited financial statements of Flextech p.l.c. ("Flextech") and of its two subsidiary companies (collectively "the Group") for the five years ended 31st May 1983 ("the relevant accounting period").

We have been auditors of Flextech and its two subsidiary companies in respect of the whole of the relevant accounting period. The financial information set out below does not comprise full financial statements within the meaning of the Companies Act 1981. Full financial statements of the three companies in the Group in respect of their accounting periods for each of the five years ended 31st May 1983 have been delivered to the Registrar of Companies and we have reported on them without qualification.

The information set out below is based on the audited financial statements of the Group, which have been prepared under the historical cost convention, after making such adjustments as we consider appropriate.

The figures in respect of Exploration and Production Services (Holdings) Limited, a related company, are based on the audited consolidated accounts of that company. Consolidated financial statements were not prepared for Coflexip S.A., another related company, prior to the year ended 31st December 1982. Consequently the figures for the four years ended 31st December 1981 incorporated in this report are based on the accounts of each of Coflexip S.A. and its subsidiaries, one of which was not audited. With this latter exception the related companies and their subsidiaries are audited by firms other than ourselves.

In our opinion, the financial information set out below gives, for the purpose of the prospectus dated 8th September 1983, a true and fair view of the state of affairs of the Group and of Flextech at 31st May 1983 and of the results and source and application of funds of the Group for each of the five years ended 31st May 1983.

No audited financial statements of any of the companies in the Group have been prepared for any period subsequent to 31st May 1983.

A. Accounting Policies

The following are the principal accounting policies which have been adopted in preparing the financial information set out in this report.

(i) BASIS OF CONSOLIDATION

The consolidated balance sheet incorporates all the assets and liabilities of Flextech and its two subsidiaries, including the Group's proportion of Flextech-Flexinvest et Cie ("Flexinvest"), a French société en nom collectif, together with the Group's share of the net assets of the related companies. The consolidated profit and loss account incorporates the results of Flextech and its two subsidiaries, including the Group's proportion of the results of Flexinvest, together with the Group's share of the results of the related companies. Flextech and its two subsidiaries make up their accounts to 31st May. Flexinvest makes up its accounts to 15th May, Coflexip S.A. to 31st December and Exploration and Production Services (Holdings) Limited to 31st March, in each case the financial statements for the period ending immediately prior to Flextech's accounting reference date being those used for the purpose of the Group accounts.

(ii) RELATED COMPANIES

A related company is one in which the Group has a substantial interest and on whose commercial and financial policy decisions the Group exercises a significant influence.

(iii) INVESTMENTS

Shares in related companies are stated in the Group accounts on the basis of the attributable underlying net assets. Other investments are stated at the lower of cost and directors' valuation. In the accounts of the holding company, Flextech, shares in both related companies and subsidiaries are stated at the lower of cost and directors' valuation.

The Directors re-examine the value of all investments at each accounting date and where, in their opinion, there has been a permanent diminution in the value of a particular investment, the provision required is dealt with through the profit and loss account.

(iv) FOREIGN CURRENCY BALANCES

Assets and liabilities denominated in foreign currencies and the results of overseas operations are translated into sterling at the rates of exchange ruling at the end of the accounting period. Exchange gains and losses on settled transactions and monetary items are reported as part of the operating profit for the year. Exchange differences arising from the retranslation of the opening net investment in foreign enterprises are recorded as a movement on revenue reserves.

(v) DEFERRED TAXATION

Deferred taxation is provided for on all short term timing differences. Deferred taxation is provided on other timing differences unless there is reasonable evidence that such taxation will not become payable in the foreseeable future.

(vi) DEPRECIATION AND AMORTISATION

Depreciation is calculated to write off the cost of fixed assets by equal annual instalments over their estimated useful lives which are considered to be four years for motor vehicles and between four and ten years for office furniture and equipment. Royalty rights are being written off over 30 years by equal annual instalments.

B. Consolidated Profit and Loss Accounts

	Notes	Years ended 31st May				
		1979	1980	1981	1982	1983
Income		£'000	£'000	£'000	£'000	£'000
Royalties receivable	(i)	100	133	149	204	310
Other income	(ii)	173	154	128	101	177
		273	287	277	305	487
Less:						
Operating expenses	(iii)	78	95	102	123	173
Interest payable		43	22	—	20	27
Exchange differences		22	37	12	(10)	101
		143	154	114	133	301
Operating profit		130	133	163	172	186
Share of profits in related companies	(iv)	157	136	319	526	991
Profit on ordinary activities before taxation		287	269	482	698	1,177
Taxation	(v)	(166)	(175)	(186)	(165)	(443)
Profit before extraordinary charges		121	94	296	533	734
Extraordinary charges	(vi)	(12)	(343)	(161)	(30)	—
Profit/(loss) attributable to the members of Flextech		109	(249)	135	503	734
Dividend	(vii)	(14)	—	—	—	—
		95	(249)	135	503	734
Retained profit/(loss) in:						
Flextech		30	(195)	(180)	5	56
Subsidiary companies		(49)	(182)	93	78	(14)
Flexinvest		52	81	16	49	79
Related companies		62	47	206	371	613
		95	(249)	135	503	734
Earnings per Ordinary Share of 10p	(viii)	1.4p	1.1p	3.4p	6.1p	6.7p

Notes to the Profit and Loss Accounts:

(i) **Royalties receivable**

Royalties receivable represent the Group's share of royalties receivable by Flexinvest on sales of certain products and on the provision of related services by Coflexip S.A. in the year ended on the preceding 31st December.

		1979	1980	1981	1982	1983
		£'000	£'000	£'000	£'000	£'000
(ii)	**Other income**					
	Bank interest and short term deposit income	173	128	71	35	115
	Interest on loan to related company	—	26	57	57	52
	Fees	—	—	—	9	10
		173	154	128	101	177
(iii)	**Operating expenses include:**					
	Depreciation and amortisation of royalty rights	3	3	4	3	7
	Directors' remuneration	20	22	25	36	39
	Auditors' remuneration	2	3	3	4	6
(iv)	**Share of profits in related companies**					
	Profit before taxation					
	Coflexip S.A.	157	103	149	43	416
	Exploration and Production Services (Holdings) Limited	—	33	170	483	575
		157	136	319	526	991

The share of profits of Coflexip S.A. for 1983 incorporated above has been adjusted by £142,000 to include the proceeds of an insurance claim in course of negotiation at 31st December 1982 and since agreed. The percentage interest of the Group in the results of Coflexip S.A. (which results include those of its subsidiaries and its share of the results of Flexservice N.V., a related company of Coflexip S.A. prior to 4th December 1981, when it became a subsidiary) in each of the years 1979 to 1983 were as follows:

1979 and 1980	11.60%
1981	12.29%
1982	12.25%
1983	9.20%

The interest in the ordinary shares of Exploration and Production Services (Holdings) Limited has been 26.67% since its acquisition in December 1979.

		1979	1980	1981	1982	1983
(v)	**Taxation**					
	Taxation charges comprise:					
	Corporation tax at 52%	(102)	(115)	(115)	(140)	(179)
	Less relief for double taxation	77	108	106	142	175
		(25)	(7)	(9)	2	(4)
	Overseas tax	(77)	(106)	(111)	(113)	(149)
	Deferred tax	(2)	(6)	(1)	—	(14)
	Adjustments in respect of prior years	(2)	(7)	(10)	20	6
		(106)	(126)	(131)	(91)	(161)
	Tax charge of related companies	(60)	(49)	(55)	(74)	(282)
		(166)	(175)	(186)	(165)	(443)

		1979	1980	1981	1982	1983
(vi)	**Extraordinary charges**	£'000	£'000	£'000	£'000	£'000
	Extraordinary charges comprise the following:					
	Provisions against long term investments:					
	Foraflex S.A.	—	(343)	(135)	—	—
	Charlton Thermosystems Limited	—	—	(12)	(30)	—
	Progressive Production Technology S.A.	—	—	(14)	—	—
	Costs of issue of new shares by a subsidiary	(12)	—	—	—	—
		(12)	(343)	(161)	(30)	—

(vii) **Dividend**

The dividend paid in respect of 1979 represented a net payment of 1p per share of 50p then in issue.

3

FLEXTECH p.l.c.

Incorporated in England under the Companies Acts 1948 to 1967, Registered No. [illegible]

(viii) Earnings per Ordinary Share of 10p

The earnings per share have been calculated on the basis of profit before extraordinary charges and the weighted average of the number of shares in issue during each financial year, after adjusting for issues of shares for non-cash considerations. For the purpose of this calculation it has been assumed that the ordinary shares of 50p each had been sub-divided into shares of 10p each prior to 1979 (see E(ii) below) and, thus, the numbers of shares deemed to have been in issue in each financial year were:

1979	8,621,555
1980 to 1982	8,752,805 in each year
1983	11,040,525

C. Balance Sheets as at 31st May 1983

	Notes	The Group £'000	The Group £'000	Flextech £'000	Flextech £'000
Fixed Assets					
Investments	(i)		4,677		2,873
Intangible assets—royalty rights	(ii)		48		—
Tangible assets	(iii)		19		19
			4,744		2,892
Current Assets					
Debtors		85		85	
Cash at bank and on deposit		1,595		1,595	
		1,680		1,680	
Creditors—amounts falling due within one year					
Sundry creditors		181		60	
Net Current Assets			1,499		1,620
			6,243		4,512
Provisions for Liabilities and Charges	(iv)		(29)		(21)
			6,214		4,491
Capital and Reserves					
Called up Share Capital	(v)		1,400		1,400
Reserves	(vi)		4,814		3,091
			6,214		4,491

Notes to the Balance Sheets:

(i) Investments

	The Group £'000	Flextech £'000
Related companies	3,775	949
Other investments	395	368
Net current assets held by Flexinvest	507	—
Subsidiary companies	—	1,556
	4,677	2,873

All investments are in unlisted companies.

(a) Related companies	Percentage	Cost £'000	Share of net assets £'000
Held by Flextech:			
Exploration and Production Services (Holdings) Limited (registered in England)			
166,667 Ordinary shares of £1 each	26.7	167	1,218
500,000 12% cumulative redeemable preference shares of £1 each	33.3	500	500
£262,051 17% loan stock 1994	33.3	282	282
		949	2,000
Held through Flexinvest:			
Coflexip S.A. (incorporated in France) 64,648 shares of FF100 each	13.6	1,578	1,775
			3,775

Flextech acquired its holding of Ordinary shares in Exploration and Production Services (Holdings) Limited, by subscription, on 19th December 1979. On that date, it subscribed for £333,333 17% loan stock which is repayable in thirteen equal annual instalments which commenced in 1982. The holding of 12% cumulative redeemable preference shares of £1 each was subscribed for in two equal amounts of 250,000 shares on 8th April 1981 and 1st October 1981.

The shareholding in Coflexip S.A. was acquired as follows:

		Shares of FF100
16th July 1975	: by subscription	23,190
1st April 1980	: conversion of FF725,000 loan stock	2,900
1st September 1981	: rights issue	7,827
30th March 1983	: purchase from existing shareholder	16,365
30th March 1983	: rights issue	14,366
		64,648

(b) Other investments

	Country of registration or incorporation	Shareholding	Percentage	Lower of cost and directors' valuation £'000
Held by Flextech:				
Foraflex S.A.	France	2,808 shares of FF100 each	8.4	21
Nortech Surveys (Canada) Inc.	Canada	300,000 class 'B' common shares	17.7	347
Chalton Thermo-systems Limited	England	8,000 Ordinary shares of £1 each	4.6	—
Siredop S.A.	France	125 shares of FF100 each (FF50 paid)	12.5	—
Held by subsidiaries:				
Foraflex S.A.	France	3,552 shares of FF100 each	10.6	27
Held by Flexinvest:				
Progressive Production Technology S.A.	France	1,140 shares of FF100 each	5.0	—
				395

The Directors' valuation of these other investments is £395,375.

The interest in Siredop S.A., a dormant company which has never traded, is in the process of being sold at an amount equal to its cost (FF 6,250).

The shares in Nortech Surveys (Canada) Inc. initially carry no voting rights. It has been agreed that they should be converted into voting shares once all requisite approvals from the Canadian Foreign Investment Review Agency have been applied for and obtained.

(c) Subsidiary companies

The investments in subsidiaries consist of the whole of the issued share capital of the following companies, each of which is registered in England.

	Shares at lower of cost and directors' valuation £'000	Loan account £'000	Current account £'000	Total £'000
Flextech-Flexinvest Limited	—	1,417	132	1,549
Flexodrilling (Holdings) Limited	139	—	(132)	7
	139	1,417	—	1,556

(ii) Intangible Assets	Cost £'000	Accumulated amortisation £'000	Net book value £'000
Royalty rights held by Flexinvest	68	20	48

(iii) Tangible Assets	Cost £'000	Accumulated depreciation £'000	Net book value £'000
Office furniture, equipment and motor vehicle	26	7	19

(iv) Provisions for Liabilities and Charges

Deferred Taxation

The balance on the deferred taxation account, which represents full provision for future taxation liabilities in respect of the relevant timing and other differences, comprises taxation at 52% on:

	The Group £'000	Flextech £'000
Short term timing differences	15	15
Capital allowances in excess of depreciation and amortisation	14	6
	29	21

No provision has been made for any taxation liabilities which might arise on the realisation of investments.

(v) Share Capital

	Ordinary shares of 50p each	£'000
Authorised	3,700,000	1,850
Issued and fully paid	2,800,897	1,400

(vi) Reserves

Movements on reserves over the relevant accounting period were as follows:

	Revenue reserve £'000	Share premium £'000	Total £'000
THE GROUP			
At 1st June 1978	94	688	782
Retained profit in the period	1,218	—	1,218
Premium on acquisition of interests in a related company written off	(61)	—	(61)
Unrealised exchange differences on retranslation of opening assets of overseas enterprises	(70)	—	(70)
Arising on shares issued in the period	—	2,945	2,945
At 31st May 1983	1,181	3,633	4,814
Retained profit/(loss) in:			
Flextech	(264)	3,355	3,091
Subsidiary companies	33	—	33
Flexinvest	69	—	69
Related companies	1,343	278	1,621
	1,181	3,633	4,814
FLEXTECH			
At 1st June 1978	20	688	708
Losses for the period	(284)	—	(284)
Arising on shares issued in the period	—	2,667	2,667
At 31st May 1983	(264)	3,355	3,091

D. Consolidated Statements of Source and Application of Funds

Years ended 31st May	1979 £'000	1980 £'000	1981 £'000	1982 £'000	1983 £'000
Sources of Funds					
Profit on ordinary activities before taxation	297	269	482	698	1,177
Items not involving the movement of funds:					
Profits retained by related companies	(103)	(91)	(270)	(427)	(859)
Depreciation and amortisation	3	3	4	3	7
Unrealised exchange differences	25	9	12	(7)	88
Funds generated from ordinary activities	213	189	228	267	413
Funds from other Sources					
Consideration for shares issued	320	—	—	—	3,019
Loans received	239	147	—	—	—
Disposal of tangible assets	1	—	—	—	—
Loans repaid	—	—	—	26	26
Reduction in share of net assets held by Flexinvest	3	—	—	46	—
	776	336	228	339	3,458
Application of Funds					
Purchase of investments	237	669	250	493	1,336
Increase in share of net current assets held by Flexinvest	—	97	53	—	243
Purchase of tangible assets	2	—	6	—	18
Loan repayments	108	652	—	—	—
Taxation paid	166	90	112	139	155
Dividends paid	14	14	—	—	—
	527	1,522	421	632	1,752
Net movement of Funds	249	(1,186)	(193)	(293)	1,706
Increase (Decrease) in Working Capital					
Increase (decrease) in:					
Debtors	319	(308)	(12)	21	(10)
Short term investments	(338)	116	(267)	(40)	—
Bank and cash balances, net of overdrafts	497	(1,275)	77	(252)	1,733
Decrease (increase) in Creditors	(229)	281	9	(22)	(17)
	249	(1,186)	(193)	(293)	1,706

E. Post Balance Sheet Events

(i) On 3rd June 1983, Flextech acquired as a long term investment 76,614 class 'A' convertible preferred shares of US$0.05 each, representing 10.3% of the issued share capital of Advanced Energy Dynamics, Inc., a company incorporated in the Commonwealth of Pennsylvania, USA. The cost of this investment was £510,000.

(ii) On 7th September 1983:

(a) Each ordinary share of 50p of Flextech was sub-divided into five ordinary shares of 10p each.

(b) The authorised share capital of Flextech was increased to £2,350,000 by the creation of an additional 5,000,000 ordinary shares of 10p each.

Following the above events the issued share capital of Flextech consisted of 14,004,485 ordinary shares of 10p each.

Yours faithfully

Spicer and Pegler *Chartered Accountants.*

Appendix II: Financial Information on Coflexip and Expro

COFLEXIP

The following information is based on the financial statements of Coflexip.

Consolidated Profit and Loss Accounts for the Five Years Ended 31st December 1982

	1978 FF'000	1979 FF'000	1980 FF'000	1981 FF'000	1982 FF'000
Turnover	137,419	197,454	243,966	368,855	827,784
Profit before taxation	12,369	8,652	13,983	4,037	37,146
Taxation	(4,711)	(4,138)	(8,402)	(4,026)	(15,086)
Group profit after taxation	7,658	4,514	5,581	11	22,060
Extraordinary charges:					
Provisions against Foraflex	—	(917)	(2,385)	—	—
	7,658	3,597	3,196	11	22,060
Minority Interests	—	—	—	48	(885)
Profit/(loss) attributable to the Members of Coflexip	7,658	3,597	3,196	59	21,175
Dividends	(3,000)	(3,000)	(3,093)	(2,592)	(4,056)
Retained profit/(loss)	4,658	597	103	(2,533)	17,119

Consolidated Balance Sheet as at 31st December 1982

	Cost FF'000	Depreciation FF'000	Net Book Value FF'000
Fixed assets			
Property and plant	423,988	246,657	177,331
Investments	19,746	4,781	14,965
Share issue expenses	1,338	1,089	249
			192,545
Current assets			
Stock and work-in-progress		174,134	
Debtors and prepayments		275,105	
Bank balances		43,869	
		493,108	
Current liabilities			
Creditors and accruals		317,886	
Loans due within one year		20,208	
Taxation		13,031	
Bank overdrafts		39,894	
		391,019	
Net current assets			102,089
			294,634
Loans			125,495
			169,139
Share Capital			36,875
Reserves			
Distributable profits (of which FF4,056,000 subsequently declared as a dividend)		18,618	
Other (non-distributable) reserves		103,042	
			121,660
			158,535
Minority Interests			9,872
Deferred Income			732
			169,139

EXPRO

The following information is based on the audited financial statements of Expro.

Consolidated Profit and Loss Accounts for the Five Years Ended 31st March 1983

	1979 £'000	1980 £'000	1981 £'000	1982 £'000	1983 £'000
Turnover	3,658	4,680	7,099	12,298	16,889
Profit before taxation	324	414	637	1,765	2,091
Taxation	(19)	—	130	(119)	(365)
	305	414	767	1,646	1,726
Dividends	(77)	—	—	(133)	(180)
Retained profit	228	414	767	1,513	1,546

Consolidated Balance Sheet as at 31st March 1983

	£'000	£'000
Fixed assets at cost	13,951	
Less: Depreciation	4,194	9,757
Current assets		
Debtors	4,936	
Cash	265	
	5,201	
Current liabilities		
Bank overdraft (secured)	2,366	
Creditors and accrued liabilities	3,347	
Taxation	349	
Current portion of long-term loans (secured)	591	
Preference dividends	90	
	6,743	
Net current liabilities		1,542
		8,215
Less: Long-term loans (secured)—shareholders	769	
—others	1,381	2,150
		6,065
Share capital		2,116
Distributable retained earnings		3,949
		6,065

The above financial information does not comprise full financial statements within the meaning of the Companies Act 1981. Full financial statements of Expro in respect of its accounting periods ended 31st March 1983 have been delivered to the Registrar of Companies and its auditors have reported on them without qualification.

Appendix III: Statutory and General Information

1. Flextech and its Share Capital

(a) Flextech was registered in England on 8th November 1974 under the name Flextech Oil Pipe (Holdings) Limited as a private company with an authorised share capital of £300,000 consisting of 600,000 Ordinary Shares of 50p each. On 18th December 1978, the name was changed to Flextech Limited.

(b) On 8th September 1981, the authorised share capital of Flextech was £1,000,000 divided into 2,000,000 Ordinary Shares of 50p each of which 1,750,561 Ordinary Shares were issued and fully paid. At the Annual General Meeting held on 4th December 1981, resolutions were passed to re-register Flextech as a public limited company pursuant to the provisions of the Companies Act 1980, to alter its Memorandum of Association accordingly and to adopt new Articles of Association. On 20th January 1982, the Certificate of Incorporation on re-registration as a public limited company was issued. On 13th December 1982, the authorised share capital was increased from £1,000,000 to £1,850,000 by the creation of an additional 1,700,000 Ordinary Shares of 50p each and on 24th December 1982, 1,050,336 Ordinary Shares were issued pursuant to an open offer to shareholders at 300p per Ordinary Share representing a premium of 250p per Ordinary Share over the par value of 50p. At an Extraordinary General Meeting held on 7th September 1983, each of the existing Ordinary Shares of 50p was sub-divided into five Ordinary Shares of 10p each and the authorised share capital of Flextech was increased to £2,350,000 by the creation of an additional 5,000,000 Ordinary Shares of 10p each.

(c) At the Extraordinary General Meeting held on 7th September 1983, resolutions were also passed:—

(i) to authorise the Directors pursuant to Section 14 of the Companies Act 1980 to allot all existing unissued relevant securities of Flextech during the period expiring on 6th September 1988 and pursuant to that authority to allot equity securities as though Section 17(1) of the Companies Act 1980 did not apply to the allotment until the next Annual General Meeting of Flextech (such latter authority being limited to the allotment of shares in consequence of an issue to the public, in connection with a rights issue to Ordinary Shareholders and to the allotment of equity securities up to an aggregate nominal value of £117,500); and

(ii) to amend the voting rights attaching to the Ordinary Shares so that, on a poll, each member has one vote for every 10p nominal amount of share capital of which he is the holder.

(d) Save as disclosed herein, since 8th September 1981, no share or loan capital of Flextech or of any subsidiary has been issued or is proposed to be issued for cash or any other consideration and no commissions, discounts, brokerages or other special terms have been granted by Flextech or by any subsidiary in connection with the issue or sale of any such capital.

(e) No share or loan capital of Flextech is under option or is agreed, conditionally or unconditionally, to be put under option.

(f) No material issue of shares (other than as described in paragraph (c)(i) above) will be made by Flextech within one year of the date of this document without the prior approval of Flextech in general meeting.

(g) Following the issue, 5,495,515 Ordinary Shares of 10p each will remain unissued and no issue of shares will be made by Flextech which will effectively alter its control or the nature of its business without the prior approval of Flextech in general meeting.

2. Underwriting Agreement

By an Agreement dated 8th September 1983 and made between Flextech, Mr. R. G. Johnson and Investors in Industry Corporate Finance Limited, Investors in Industry Corporate Finance Limited has agreed, subject, *inter alia*, to the Council of The Stock Exchange granting permission not later than 15th September 1983 for the whole of the share capital, issued and to be issued, of Flextech to be dealt in on the Unlisted Securities Market, to underwrite the issue of 4,000,000 Ordinary Shares of 10p each in Flextech (being the shares the subject of this document) for a commission of 2 per cent. (plus value added tax) of the issue price (out of which Investors in Industry Corporate Finance Limited will pay a sub-underwriting commission of 1½ per cent. (plus value added tax) and a fee of £10,500 (plus value added tax) to the brokers to the issue). Flextech has agreed to pay all the costs and expenses of and incidental to the issue (together with any applicable value added tax) including the expenses of printing, advertising and circulating this document, capital duty, the Registrars' charges, the receiving bankers' charges, the fees and expenses of the reporting accountants and the fees of the legal advisers to Flextech and the issue, a fee to Investors in Industry Corporate Finance Limited and a fee of £50,000 (plus value added tax) to Cazenove & Co. for their services in connection with the issue. These expenses are estimated to amount to £535,000 inclusive of value added tax.

3. Directors' and other interests

(a) The Directors and their families have the following beneficial interests in Flextech's present issued share capital:

Director	*Ordinary Shares of 10p each*	*Per cent.*
A J Butterworth	9,260	0.07
P J Smith	31,000	0.22
R G Johnson	10,000	0.07
Lieutenant-General Sir Napier Crookenden	—	—
D J L Fitzwilliams	8,000	0.06
L V D Tindale	—	—

Certain Directors of Flextech are directors of the following companies which have interests in Flextech's present issued share capital as follows:

Director	*Company*	*Ordinary Shares of 10p each*	*Per cent.*
P J Smith	Frobisher Fund NV	738,885	5.28
	Howard Trust Company Limited	225,000	1.61
	Investissements Atlantiques S.A.	100,000	0.71
	Raleigh Trust Company Limited	300,000	2.14
D J L Fitzwilliams	The Cardinal Investment Trust P.L.C.	250,000	1.79
	General Investors and Trustees PLC	225,000	1.61
L V D Tindale	Investors in Industry plc	465,915	3.33

In addition to the shareholding of Frobisher Fund NV, the Directors are aware of the following holdings of or interests in shares representing 5 per cent. or more in Flextech's present issued share capital:

Company	*Ordinary Shares of 10p each*	*Per cent.*
Witan Investment Company PLC	1,683,295	12.02
Equity and Law Life Assurance Society PLC	1,600,000	11.42
The Fleming Mercantile Investment Trust plc	732,095	5.23
London Trust PLC	719,125	5.13

(b) Save for the above beneficial interests, the Directors are not aware of any other shareholding which amounts to 5 per cent. or more of Flextech's issued share capital.

(c) The aggregate emoluments of the Directors in respect of Flextech's financial year ended 31st May 1983 totalled £39,144. Their aggregate emoluments in respect of the year ending 31st May 1984 are estimated to amount to £64,000 under the arrangements in force at the date of this document. As Deputy Chairman, Mr P J Smith is entitled to a fee of £7,500 per annum.

(d) None of the Directors has any direct or indirect interest in any assets which, during the two years immediately preceding the date of this document, have been acquired or disposed of by or leased to Flextech or any of its subsidiaries or are proposed to be acquired or disposed of by or leased to Flextech or any of its subsidiaries.

4

FLEXTECH p.l.c.

Incorporated in England under the Companies Acts 1948 to 1967, Registered No. 1190025

(e) Mr L V D Tindale is a Director of Investors in Industry Corporate Finance Limited and Investors in Industry plc which are both subsidiaries of Investors in Industry Group plc, of which he is also a Director. Investors in Industry Corporate Finance Limited will be receiving a fee and underwriting commission in connection with this issue. Mr P J Smith is a partner in Cazenove & Co., who will receive fees in connection with the issue.
(f) Save as disclosed in paragraph (e), none of the Directors has any direct or indirect interest in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of Flextech or any of its subsidiaries taken as a whole.

4. Service Agreement
Mr R G Johnson has a Service Agreement with Flextech dated 7th September 1983, by which he has agreed to serve Flextech for a period of 3 years commencing on 7th September 1983 at an annual salary (subject to review) of £27,500. There are no other service agreements subsisting between Flextech and any of its Directors.

5. Taxation
(a) Clearance has been obtained under Section 464 of the Income and Corporation Taxes Act 1970 in respect of the latest increase in capital and the sub-division of shares referred to in paragraph 1(b) of this Appendix and the issue of shares pursuant to this document.
(b) Flextech is not, and is not expected to be after completion of the issue, a close company within the meaning of the Income and Corporation Taxes Act 1970, as amended.

6. Articles of Association
The Articles of Association of Flextech contain, *inter alia*, provisions to the following effect:
(a) Votes of Members
Subject to disenfranchisement in the event of non-compliance with a statutory notice requiring disclosure as to interests therein, and subject to any special terms as to voting on which any shares may be issued or for the time being held, on a show of hands every member present in person shall have one vote and on a poll every member present in person or by proxy shall have one vote for every 10p nominal amount of share capital of Flextech held by him. A corporation being a member is deemed to be present in person if represented by proxy or in accordance with the Companies Acts.

(b) Variation of Rights
All or any of the rights or privileges attaching to any class of shares may, subject to the Companies Acts, be altered or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of such shares.

(c) Directors
(i) Save in the particular circumstances set out in the Articles of Association, a Director shall not vote (nor be counted in the quorum) on any resolution of the Directors in respect of any contract or arrangement in which he is to his knowledge materially interested. A Director is deemed to be materially interested in a transaction where a company in which the Director holds or is beneficially interested in one per cent. or more of any class of the equity share capital or of the voting rights is materially interested in the transaction. Flextech may by ordinary resolution suspend or relax such provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of these provisions.
The particular circumstances set out in the Articles of Association are:
— any contract or arrangement for giving any security or indemnity in respect of money lent by a Director or obligations undertaken by him for the benefit of the Company;
— any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company which the Director has himself guaranteed or secured in whole or in part;
— any contract or arrangement by a Director to subscribe for shares, debentures or other securities of the Company issued or to be issued pursuant to any offer or invitation to Members or debenture holders of the Company or any class thereof or to the public or any section thereof, or to underwrite any shares, debentures or other securities of the Company;
— any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
— any contract or arrangement concerning any other company (not being a company in which the Director owns 1 per cent. or more) in which he is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise howsoever;
— any proposal concerning the adoption, modification or operation of a superannuation fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or of any of its subsidiaries and does not accord to any Director as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; and
— any arrangement for the benefit of employees of the Company or of any of its subsidiaries under which the Director benefits in a similar manner to the employees.
(ii) Each Director shall be paid a fee at such rate as may from time to time be determined by Flextech in general meeting. In addition, Flextech may repay to each Director his reasonable expenses incurred in attending Directors' meetings and general meetings and shall repay all expenses properly and reasonably incurred by him in conducting the business of Flextech and discharging his duties as a Director. Any Director who, by request, goes abroad for any purpose of Flextech or who performs services which, in the opinion of the Directors, go beyond the ordinary duties of a Director may be paid such extra remuneration as the Directors may determine. Any Director who holds any executive office shall receive such remuneration (whether by way of salary, commission, participation in profits, pension or otherwise) as the Directors may determine and in addition to or in lieu of his remuneration as a Director.
(iii) The Directors on behalf of Flextech may grant pensions, annuities or other allowances and benefits in favour of any Director or former Director or the relations, connections or dependents of such persons, except that such payments may only be made to a Director or former Director who has not been an Executive Director or held any other office or place of profit under Flextech or to a person who has no claim on Flextech except as a relation, connection or dependent of such a Director or former Director with the approval of an ordinary resolution of Flextech.
(iv) A Director shall not require a share qualification.
(v) The office of a Director shall be vacated if:
— not being an Executive Director whose contract precludes resignation, he resigns;
— he becomes of unsound mind and the Directors resolve that his office be vacated;
— without leave, he is absent from Directors' meetings (whether or not an alternate Director appointed by him attends) for twelve consecutive months, and the Directors resolve that his office be vacated;
— he becomes bankrupt or compounds with his creditors;
— he is prohibited by law from being a Director;
— he ceases to be a Director by virtue of the Companies Acts or is removed from office pursuant to the Articles of Association; or
— being a corporation, *inter alia*, the corporation is wound up, ceases to do business or is unable to pay its debts, or a receiver is appointed of the whole or any part of its undertaking or assets.
(vi) No person shall be disqualified from being appointed a Director and no Director shall be required to vacate his office by reason only of the fact that he has attained the age of 70 years or any other age, nor shall it be necessary to give special notice of a resolution appointing or reappointing or approving the appointment of a Director by reason of his age.

(d) Borrowing Powers
Subject to the provisions of the Articles of Association, the Directors may exercise all the powers of Flextech to borrow money and to mortgage or charge its undertaking, property and assets, both present and future (including uncalled capital) and, subject to the Companies Acts, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of Flextech or of any third party. The Directors shall restrict the borrowings of Flextech and shall exercise all voting and other rights of control exercisable in relation to Flextech's subsidiaries, so as to secure (but as regards subsidiaries only in so far as they can secure) that the aggregate amount from time to time outstanding of all borrowings by the Group shall not at any time without the previous sanction of an ordinary resolution of Flextech exceed an amount equal to twice the "Adjusted Capital and Reserves". The "Adjusted Capital and Reserves" means the aggregate of (a) the amount paid up or credited as paid up on the issued share capital of Flextech; and (b) the amount standing to the credit of the reserves (calculated as provided in the Articles of Association).

7. Option and Pre-emption Rights in respect of principal investments
The following is a summary of option and pre-emption rights and provisions relating to the issue of further capital in respect of the Group's principal investments, together with brief details of any conversion or redemption rights attached to such investments:—

Flexinvest
The statutes of Flexinvest provide that shares may only be transferred with the prior consent of all shareholders. A shareholders' agreement dated 16th July 1975 provides that shares must first be offered for sale to other shareholders for the time being of Flexinvest at a fair price.

Coflexip
Transfers are only permitted of shares on which no calls are outstanding. Except where made between existing shareholders, transfers of shares, subscription and allotment rights normally require the consent of the Board of Directors by a two-thirds majority. If consent is refused the Board must find prospective purchasers to take the shares at a price to be agreed or otherwise fixed, failing which the refusal is nullified.

Expro
The Articles of Association of Expro provide that all unissued shares in Expro must be offered on identical terms to the shareholders, save as directed by Special Resolution passed by the shareholders in General Meeting. Under the provisions of a shareholders' agreement dated 2nd December 1979 Expro may not allot or issue any shares or other capital without the consent of ICFC, Flextech and London Trust PLC. Any shareholder wishing to dispose of shares must, in general, first offer them to the ordinary shareholders in proportion to their existing shareholdings (except that, under the provisions of the shareholders' agreement referred to above, ICFC, Flextech and London Trust PLC may transfer shares between them without restriction as to price or otherwise); any shares not accepted by any shareholder may be accepted by the others proportionately. Any shares not so accepted by other shareholders may be sold to third parties at the price at which they were offered to shareholders.
One tenth of the Cumulative Redeemable Preference Shares are to be redeemed at par on 1st April 1986 and annually thereafter until 1st April 1995 unless any part of the ordinary share capital of Expro becomes listed whereupon preference shareholders can require Expro to redeem all their outstanding shares. Expro has the right to redeem all (but not some only) of the Cumulative Redeemable Preference Shares at any time.
A Director of Expro has an option to acquire 5,000 Ordinary Shares from each of the three institutional shareholders (including Flextech) at a price of £6.18 per share. This option which is in respect of 2.4% of the equity in aggregate is exercisable on or before 3rd January 1990.

AED
The Series 1 Class 'A' Convertible Preferred Stock of AED held by Flextech is convertible by Flextech at its option at any time into Common Stock of AED at the rate (subject to adjustment in certain events) of one share of Common Stock for each share of Convertible Preferred Stock. Conversion may be effected at the option of AED on the occasion of the first sale of shares of Common Stock to the public raising not less than US$6 million net at an offering price exceeding 250% of the then current conversion price. The Convertible Preferred Stock is, in certain circumstances, redeemable at the option of Flextech between 1987 and 1991 and at the option of AED in 1992.
Under the provisions of the agreement referred to in sub-paragraph (v) of paragraph 12 below Flextech has a non-assignable right of first refusal to purchase all or part of any new shares (whether common or preferred), rights, options or warrants to purchase shares, *pro rata* to its existing holding (save in certain specified cases, including offers to the public, issues on corporate reorganisations, issues to employees and directors under share and share option schemes and bonus issues). This right expires on the first sale of shares of Common Stock to the public raising not less than US$6 million net at an offering price exceeding 250% of the then current conversion price.
There are no pre-emption rights attaching to the shares but restrictions on transfers of shares are imposed to ensure compliance with the provisions of the United States Securities Act of 1933.
Options have been granted over 213,887 Common Shares of AED at prices between US$0.05 and US$12.00 per share and over 8,000 convertible preferred shares at a price of US$0.05 per share.

Nertech
Under the provisions of the agreement referred to in sub-paragraph (iv) of paragraph 12 below no shares in the capital of Nertech may be issued for cash at any time after Flextech's interest in Nertech has fallen below 14.67% of the issued share capital without Flextech having the opportunity to acquire such percentage of such shares as is equal to the percentage of the issued share capital then held by it. In addition, if Flextech wishes to dispose of its shares in Nertech, it must first offer to sell the shares to Newmarket Company (1981) Limited and if not accepted by it, to those directors of Nortech who are shareholders, *pro rata* to their existing holdings, then to any third party on no less favourable terms than those offered to Newmarket Company (1981) Limited.

Foraflex
Transfers are only permitted of shares on which no calls are outstanding. Except where made between existing shareholders, transfers of shares, share subscription and allotment rights normally require the consent of the Board of Directors by a two-thirds majority. If consent is refused the transferor can require the Directors to find purchasers at a price to be agreed or otherwise fixed.

8. Material Changes
Save as disclosed herein, there have been no material changes in the trading or financial position of the Group since 31st May 1983.

9. Minimum Subscription
The minimum amount which, in the opinion of the Directors, must be raised by the issue of shares pursuant to this document for the purposes mentioned in paragraph 4(a) of Part I of the Fourth Schedule to the Companies Act 1948 is nil. The proceeds of the issue will be received by Flextech and will be used as to £535,000 to pay the expenses of the issue (of which £128,800 represents subscription commissions) and as to the remainder as working capital.

10. Litigation
The Directors are not aware of any litigation or claims of material importance pending or threatened against Flextech or any of its subsidiaries.

11. Consent
Spicer and Pegler have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of their report in the form and context in which it is included.

12. Material Contracts
The following contracts are the only contracts entered into by Flextech or its subsidiaries, otherwise than in the ordinary course of business, during the two years preceding the date of this document which are or may be material:—
(i) dated 25th February 1982 being an agreement for a loan by Flextech-Flexinvest Limited to Flexinvest of FF1,500,000 in order to finance in part the purchase referred to in (ii) below;
(ii) an agreement described in a memorandum dated 24th November 1982 between Flexinvest and Société Financière de Valeurs Industrielles et de Valeurs de Banques ("Valorind"), being an agreement for the transfer to Valorind for no consideration of Flexinvest's right to subscribe 15,654 shares of FF100 each in Coflexip and the subsequent sale of such shares to Flexinvest for FF 5,745,000;
(iii) dated 25th November 1982 between Cazenove & Co. and Flextech being an agreement whereby Cazenove & Co. agreed to underwrite an open offer of 1,050,336 Ordinary Shares of 50p each at 300p per Ordinary Share for a commission of 1¼ per cent. and a fee of £10,000 plus value added tax;
(iv) an agreement dated 6th December 1982 between Nortech, the Directors of Nortech, Newmarket Company (1981) Limited and Flextech whereby Flextech agreed to subscribe 300,000 Class 'B' Common Shares of Can. $0.05 each in Nortech at Can. $2.22 per share;
(v) an agreement dated 3rd June 1983 between AED, Flextech and Newmarket Company (1981) Limited being an agreement for the subscription by Flextech of 76,614 Series 1 Class 'A' Convertible Preferred Stock of par value U.S.$0.05 per share in AED at U.S. $10.4419 per share;
(vi) an agreement dated 14th June 1983 whereby Flextech-Flexinvest Limited lent FF 12,000,000 to Flexinvest in order to finance in part the share purchase and subscription referred to in (vii) and (viii) below;
(vii) an agreement dated 30th March 1983 described in a memorandum of 7th September 1983 between Flexinvest and La Société Chiers Chatillon being an agreement for the purchase by Flexinvest of 32,729 shares in Coflexip of FF100 each for a total consideration of FF11,455,150;
(viii) an agreement dated 30th March 1983 described in a memorandum of 7th September 1983 between Flexinvest and Coflexip being an agreement for the subscription by Flexinvest of 28,732 shares in Coflexip of FF100 each at FF334 per share;
(ix) the Underwriting Agreement referred to in paragraph 2 above; and
(x) the Service Agreement referred to in paragraph 4 above.

13. Registration
The copies of this document delivered to the Registrar of Companies for registration had attached to them the forms of application, the consent referred to in paragraph 11 above, the statement of adjustments made by Spicer and Pegler in arriving at the figures set out in their report and copies of each of the material contracts referred to in paragraph 12 above.

14. Documents available for inspection
Copies of the following documents will be available for inspection during usual business hours on weekdays (Saturdays and public holidays excepted) at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB until 22nd September 1983:—
(a) the Memorandum and Articles of Association of Flextech;
(b) the audited accounts of Flextech for each of the three years ended 31st May 1981, 1982 and 1983;
(c) the audited consolidated accounts of Expro for each of the three years ended 31st March 1981, 1982 and 1983;
(d) the accounts of Coflexip S.A. for each of the three years ended 31st December 1980, 1981 and 1982;
(e) the report of Spicer and Pegler and their statement of adjustments;
(f) the letter of consent referred to in paragraph 11 above; and
(g) the material contracts referred to in paragraph 12 above.

Dated 8th September 1983

Procedure for Application

All applications for the Ordinary Shares now being offered must be for a minimum of 200 Shares and in multiples of 200 Shares up to 5,000 Shares, in multiples of 500 Shares from 5,000 to 10,000 Shares and thereafter in multiples of 1,000 Shares. Each application must be made on the Application Form provided and be forwarded to Williams & Glyn's Bank plc, New Issues Department, PO Box 425, 67 Lombard Street, London EC3P 3DL so as to arrive not later than 10.00 am on 15th September 1983 and be accompanied by a cheque or banker's draft, drawn in sterling on a branch in England, Scotland, Wales, Northern Ireland, the Channel Islands or the Isle of Man of a bank which is either a member of the London or Scottish Clearing Houses or has arranged for its cheques and banker's drafts to be cleared through the facilities provided to the members of those Clearing Houses, for the full amount payable on application. Cheques or banker's drafts must be made payable to "Williams & Glyn's Bank plc" and crossed "Not Negotiable". A separate cheque or banker's draft must accompany each Application Form. Photocopies of the Application Form will not be accepted.

Preference will be given in respect of a maximum of 25 per cent. of the Shares being issued to applications made by existing shareholders and employees of Flextech on the special pink forms provided for this purpose. Preferential applications from employees will be limited to 25,000 Shares in total and will be accepted in full up to that amount.
Acceptance of applications will be conditional on the Council of The Stock Exchange granting permission for the whole of the share capital of Flextech, issued and to be issued, to be dealt in on the Unlisted Securities Market not later than 15th September 1983. Moneys paid in respect of applications will be retained by Williams & Glyn's Bank plc in a separate account.
All cheques are liable to be presented for payment on receipt and Williams & Glyn's Bank plc reserves the right to retain Letters of Allotment and any surplus application moneys pending clearance of applicants' cheques. The right is reserved to reject any application or to accept any application in part only and in particular to reject multiple or suspected multiple applications. The right is also reserved to treat as valid any applications which do not fully comply with the conditions set out in the Application Form. If any application is not accepted, the amount paid on application will be returned in full and, if any application is accepted for fewer Shares than the number applied for, the balance of the amount paid on application will be returned without interest, in each case by cheque through the post at the applicant's risk.
Fully paid renounceable Letters of Allotment in respect of Ordinary Shares will be sent by post to successful applicants at their risk not later than 20th September 1983 and the last date for registration of renunciation will be 4th November 1983. Share certificates will be despatched by post at the risk of the person(s) entitled thereto on 2nd December 1983. Pending the issue of certificates, instruments of transfer of Ordinary Shares will be certified against the register.
No person receiving a copy of this document and/or an Application Form in any territory other than Great Britain may treat the same as constituting an invitation to him, nor should he in any event use such Application Form unless in the relevant territory such an invitation could lawfully be made to him or such Application Form could lawfully be used without compliance with any further registration or other legal requirements. It is the responsibility of any person outside Great Britain wishing to make an application hereunder to satisfy himself as to full observance of the laws of the relevant territory in connection therewith, including obtaining any governmental or other consents which may be required or observing any other formalities needing to be observed in such territory.
The Ordinary Shares are not being registered under the United States Securities Act of 1933 and may not be subscribed, directly or indirectly, by nationals or residents of the United States of America.

Copies of this document with an Application Form attached may be obtained from:

Investors in Industry Corporate Finance Limited 91 Waterloo Road London SE1 8XP	Cazenove & Co. 12 Tokenhouse Yard London EC2R 7AN	Williams & Glyn's Bank plc New Issues Department 67 Lombard Street London EC3P 3DL

and from the following offices of ICFC:

38 Carden Place Aberdeen AB1 1UP	112 Colmore Row Birmingham B3 3AG	47 Middle Street Brighton BN1 1AL
Pearl Assurance House Queen Square Bristol BS1 4LE	Jupiter House Station Road Cambridge CB1 2HZ	Alliance House 18/19 High Street Cardiff CF1 3TS
9 Charlotte Square Edinburgh EH2 4DR	20 Blythswood Square Glasgow G2 4AR	Headrow House The Headrow Leeds LS1 8ES
Abacus House 32 Friar Lane Leicester LE1 5QU	Silkhouse Court Tithebarn Street Liverpool L2 2LZ	Virginia House 5 Cheapside Manchester M2 4WG
Scottish Life House Archbold Terrace Jesmond Newcastle upon Tyne NE2 1DB	Newtown House Maid Marian Way Nottingham NG1 6GG	43/47 Crown Street Reading RG1 2SN
11 Westbourne Road Sheffield S10 2QQ	Capital House 1 Houndwell Place Southampton SO1 1HU	

Application Form

THE APPLICATION LIST FOR THE SHARES NOW BEING ISSUED WILL OPEN AT 10.00 a.m. ON THURSDAY, 15th SEPTEMBER 1983 AND MAY BE CLOSED AT ANY TIME THEREAFTER.
This Application Form when completed must be forwarded or handed in to Williams & Glyn's Bank plc, New Issues Department, P.O. Box 425, 67 Lombard Street, London EC3P 3DL, together with a cheque/banker's draft for the full amount payable, so as to be received not later than 10.00 a.m. on Thursday, 15th September 1983. Photostat copies of Application Forms will not be accepted.
A separate cheque or banker's draft must accompany each Application Form.
Cheques and banker's drafts which must be drawn in sterling on a branch in England, Scotland, Wales, Northern Ireland, the Channel Islands or the Isle of Man of a bank which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided to the members of those Clearing Houses and must bear the appropriate sorting code number in the top right hand corner, must be made payable to "Williams & Glyn's Bank plc" and crossed "Not Negotiable" and must represent payment in full at the application price. No application will be considered unless these conditions are fulfilled. All cheques/banker's drafts are liable to be presented for payment on receipt.
Applicants are strongly advised to use first class post and to allow two days for delivery.

Flextech p.l.c.

(Incorporated in England under the Companies Acts 1948 to 1967, No. 1190025)

Issue of 4,000,000 Ordinary Shares of 10p each at 140p per Ordinary Share payable in full on application

Examples of amounts payable on application

Shares	£	Shares	£
200	280	5,000	7,000
400	560	10,000	14,000
600	840	25,000	35,000
800	1,120	50,000	70,000
1,000	1,400	100,000	140,000

Number of shares applied for	Amount enclosed at 140p per share
	£

Applications must be for a minimum of 200 shares or for the following multiples of shares: multiples of 200 shares up to 5,000 shares, in multiples of 500 shares from 5,000 to 10,000 shares and thereafter in multiples of 1,000 shares.

To: Flextech p.l.c.
I/We enclose a cheque/banker's draft for the above-mentioned sum, being the full amount payable on application at 140p per share for the above-stated number of Ordinary Shares of 10p each in Flextech p.l.c. ("the Company"), and I/we apply to subscribe that number of Shares. I/We hereby undertake and agree to accept the same, or any smaller number of shares in respect of which this Application may be accepted, upon the terms of your prospectus dated 8th September 1983 and subject to the Memorandum and Articles of Association of the Company. I/We hereby authorise you to send to me/us a fully paid renounceable Letter of Allotment for the number of shares in respect of which this application is accepted and/or a cheque for any moneys returnable to me/us by ordinary first class post at my/our risk to the address first given below and to procure my/our name(s) to be placed on the Register of Members of the Company as holder(s) of the said Shares so far as they have not been effectively renounced.
I/We declare that due completion and delivery of this Application Form, accompanied by a cheque/banker's draft, constitutes an undertaking that such cheque/banker's draft will be honoured on first presentation.
I/We agree that this application and any acceptance will be governed by and construed in accordance with English law.
I/We warrant and represent that I/we have observed and complied with all requirements and obtained all consents required for this application to be made in any jurisdiction to which I/we may be subject.

Signature .... Dated .... September 1983

Forename(s) (in full) ....
Surname (Mr., Mrs., Miss or Title) ....
Address (in full) ....
.... Post Code ....

Please use BLOCK CAPITALS

FOR OFFICE USE ONLY
1. Shares accepted
2. Amount received on application £
3. Amount payable on shares accepted £
4. Amount returned £
5. Return Cheque No.
6. Allotment Letter No.

ALL FURTHER JOINT APPLICANTS MUST SIGN AND GIVE NAMES AND ADDRESSES BELOW. In the case of a corporation, this form should be signed by a duly authorised officer who should state his representative capacity.

Please pin top left corner of cheque/banker's draft here.

2. *Signature* ....
Forename(s) (in full) ....
Surname (Mr., Mrs., Miss or Title) ....
Address ....
Post Code ....

3. *Signature* ....
Forename(s) (in full) ....
Surname (Mr., Mrs., Miss or Title) ....
Address ....
Post Code ....

Please use BLOCK CAPITALS

4. *Signature* ....
Forename(s) (in full) ....
Surname (Mr., Mrs., Miss or Title) ....
Address ....
Post Code ....

NO RECEIPT WILL BE ISSUED FOR THE PAYMENT ON APPLICATION, but an acknowledgement will be forwarded through the post in due course, at the risk of the applicant(s), either by a fully paid renounceable Letter of Allotment for all the shares applied for or by a fully paid renounceable Letter of Allotment for the shares applied for and accepted and a cheque for any surplus application moneys, or by the return through the post of the application moneys.

UK COMPANY NEWS

Lord Inchcape joins Gray Dawes board

Banque Arabe et Internationale d'Investissement (BAII) has appointed Lord Inchcape to the board of Gray Dawes, the City banking institution which it bought from Inchcape last July for £12m.

Other new directors are Dr Salim Al Hoss, formerly Prime Minister of the Lebanon, M Pierre Ledoux, honorary president of Banque Nationale de Paris which is a shareholder in BAII's holding company and Mr Jeremy Hardie, chairman of the National Provident Institution.

M Yves Lamarche, chief executive of BAII's holding company becomes chairman.

BAII is a US$3.2bn Arab-Western joint venture merchant bank based in Luxembourg with its flagship operation in Paris. The acquisition of Gray Dawes marks the establishment of a fuller presence in London where it previously had only a representative office.

Mr Gerald Tedder, who heads the bank's operations in London, said BAII plans to gear up Gray Dawes

He stressed portfolio management, corporate financial services, the expansion of treasury operations, trading in Arab currencies, project and trade finance (for which a new subsidiary is being formed), and loans to medium and small companies in the UK. He predicted that Gray Dawes could roughly treble its balance sheet to around £500m in the next three years or so.

BAII is doubling Gray Dawes shareholders funds to £24m by supplying a ten-year £12.5m subordinated loan.

Contrary to a previous announcement BAII will retain the name of Gray Dawes though this will involve further negotiations with Inchcape

The fact that BAII is a foreign bank means that Gray Dawes has been temporarily reclassified by the Bank of England as a deposit taking institution. Mr Tedder said BAII intends to manage its new acquisition so as to return to full bank status "within a reasonable period."

Laird Grp. ahead in first half

TRANSPORT SYSTEMS and engineering concern Laird Group edged ahead from taxable profits of £9.31m to £9.52m in the first half of 1983, on lower turnover of £143.27m compared with £149.67m.

The interim dividend is being lifted from 2.1p to 2.2p net per 25p share and will be paid on December 5.

Tax took £3.24m (£2.74m) including £1.8m (£1.1m) for overseas, leaving attributable profits of £8.28m (£6.57m).

● comment

The only worry with a really good contract is how to replace it. That is what concerns the market about Laird. No matter that 1983 looks set to produce the fourth consecutive year of growth, the share price will remain moribund as long as the market sees nothing else but the run down of the highly profitable Hong Kong Mass Transit contract. The City's guess is that profits from train production might have been £7m to £8m out of last year's £19.1m. Now it is a fair bet that profits from Hong Kong will hold up this year and next even if physical production is declining. But how will Laird replace those earnings in 1985? It has a contract for a prototype diesel multiple for British Rail and will be making deliveries to London Transport next year. Yet some doubt the ability of domestic contracts to fill the hole left by Hong Kong. What might get the share price moving would be a signature on a large overseas order. Assuming £21m for the year the shares stand on a p/e of under 6 taking a line through the interim tax charge while the yield is 6.1 per cent.

Flextech USM quotation values company at £25m

BY DOMINIC LAWSON

FLEXTECH, a holding company investing internationally in energy related businesses, is coming to the Unlisted Securities Market by way of an offer for sale of 4m shares at 140p each.

This will raise £5m for the company, after expenses and will capitalise Flextech at £25.2m, making it one of the largest companies ever to have joined the USM.

Flextech's two main investments are in Coflexip, a French manufacturer of flexible pipe for the oil industry, and in Expro, a UK company which provides specialist petroleum engineering and production field services.

In addition Flextech is entitled to certain royalties paid on sales of Coflexip's flexible pipe, and has interests in the U.S. and Canada.

Over the five years to May 1983 Flextech's profits before tax have increased from £287,000 to £1.18m. The p/e ratio for the year to May 1983 is 20.9, which rises to 27.5 on a notional full tax charge. The net proceeds of the issue will be applied towards making further investments. No profits forecast accompanies the offer for sale.

Taking into account a £264,537 shortfall in distributable reserves at May 31 1983, the company does not expect to pay a dividend for the current year. The company intends to recommend dividends when its reserves are sufficient to maintain the level of distribution in subsequent years.

The prospectus contains a paragraph on risk factors which states: "Since a high proportion of Flextech's capital is invested overseas, fluctuations in exchange rates may have a material effect on future earnings and asset values."

Adjusted for the current issue and its proceeds, Flextech's net asset value per share is 62.6p. The directors hold less than half a per cent of the equity. Witan Investment holds about 12 per cent, and Equity and Law Life Assurance Society holds more than 11 per cent.

Brokers to the issue are Cazenove, and the underwriters are Investors in Industry Corporate Finance. The application list opens on September 15. Dealings are expected to begin on September 21.

● comment

Flextech is rather an unusual animal, being neither an energy stock nor a pure investment company, but something in between. Current trends would therefore suggest a tender offer, and the issue's sponsors should be thanked for performing the almost forgotten art of pricing "difficult" shares without free assistance from the public. Though the areas of Flextech's interest—a mixture of energy and new venture—are high fashion, the price put on the shares takes full advantage of that. The profits record is sound enough, but 1980's attributable loss of £249,000 shows the downside of investing in greenfields ventures. To the extent that Flextech is a form of investment company it should be noted that post issue asset value is less than half the market capitalisation at the offer price. Cazenove's power in the market should ensure a good reception, but at the same time investors would be doing very well if they can match the 133 per cent capital appreciation enjoyed by those who subscribed to last December's £3m rights issue.

EPIC lifts dividend to 8p

AVAILABLE income of the Estates Property Investment Company came through just ahead at £1.58m for the year ended April 30 1983, against a previous £1.51m, after a tax charge down slightly from £914,000 to £896,000.

Earnings per 25p share are shown as 8.32p (7.96p) and the total dividend is stepped up 0.5p to 8p net with a higher final distribution of 5.25p (4.75p).

Gross rents receivable rose from £3.68m to £4.13m, less ground rents, £475,000 (£402,000) making net rents £3.65m (£3.28m). Net property income amounted to £3.23m (£2.9m) and the pre-tax figure was after interest payable, less receivable, up from £482,000 to £757,000.

Of the available figure, dividends will absorb £1.52m (£1.42m) leaving £61,000 (£87,000) retained.

All the group's properties, except for those in the course of development, have been revalued as at April 30 and the valuation in the sum of £45.57m has been incorporated in the year's accounts together with the directors' valuation of properties in course of development of £5.36m. The result is a deficit of £1.18m, compared with a total book value of £52.12m. Net asset value per share is given as 179p, excluding any contingent capital gains tax liability.

Edmond on target for year

In the first figures to be published since Edmond Holdings gained readmittance to the Stock Exchange official list, the group shows a turn round from first half taxable losses of £334,195 to profits of £292,346 in the period to June 30, 1983.

The first interim dividend is set at 0.33p net per 10p share — compared with a forecast of 0.25p at the time of the group's relisting, when a total payout for the year of 1p net was predicted. Earnings per share are given as 1.58p compared with losses of 3.34p.

The directors expect the return to profitability to continue for the rest of the year and the group will meet the relisting forecast of pre-tax profits of £575,000 for the year.

Turnover advanced from £2.48m to £2.58m and taxable profits were struck after interest payable of £238,085 (£392,246).

There was again no tax charge. Extraordinary items came to £17,000 (£194,292) leaving attributable profits of £275,346 (losses £528,487).

The group was formerly known as Allied Residential.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims:—Bemrose, Blockleys, C. O. Bramall, W. Canning, City and Commercial Investment Trust, Haytors, Invergordon Distillers, Low and Bonar, Merchants Trust, Mersey Docks and Harbour, S. Pearson, H. and J. Quick, Wolstenholme Rink.

Finals:—Broville Europe, Chambers and Fargus, Cope Allman International, Fashion and General Investment, G. T. Japan Investment Trust, Murray Glendevon Investment Trust.

FUTURE DATES

Interims:—

AC Cars	Sept 23
Beatson Clark	Sept 15
Bifurcated Engineering	Sept 19
Higgs and Hill	Oct 5
Jones and Shipman	Sept 14
Perry (Harold)	Sept 15
Rio Tinto-Zinc	Sept 21
Rowton Hotels	Sept 16
Finals:—	
Bell (Arthur)	Oct 4
London Shop Property Trust	Sept 15

IoM Steam

A reduction in the first half taxable deficit from £1.19m to £657,000 has been achieved by the Isle of Man Steam Packet. Turnover for the six months to June 30 1983 was up at £5.15m against £4.77m.

For the 12 months to December 1982 losses were cut from £842,000 to £184,000 with a second half profit of £1.01m.

The current season, say the directors, has been a substantial increase in arrivals from Ireland, but there has been a further decline on other routes. They point out that income from the passenger side of the business is normally greater in the second half.

RECENT ISSUES

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1983 High	1983 Low	Stock	Closing price	+ or −	Net Div.	Times Covered	Gross Yield	P/E Ratio
§119	F.P.	14/9	152	130	✠Aaronite Group	143	...	bd2.5	2.1	2.5	28.0
¶¶	F.P.	—	160	140	Assoc. Telecom	157	−3	b2.0	5.1	2.1	21.
§50	F.P.	4/8	127	93	✠Biomechanical 10p	106	+12	—	—	—	—
¶200	F.P.	26/8	250	200	DPCE Hldgs 5p	237	−5	b2.0	2.6	1.2	41.1
¶¶	F.P.	—	325	160	Dollonds Photo 12½p	255	...	—	—	—	—
§100	F.P.	5/8	120	110	✠Gee (C.) 10p	119	...	u2.1	2.5	2.5	22.8
¶190	F.P.	12/8	204	180	Gent (S.R.) 10p	198	+2	b5.0	5.1	3.3	16.5
§17½	F.P.	19/8	24	20	✠GilbertH'useInvs 10p	22	...	—	—	—	—
375	F.P.	5/8	372	339	Henderson Admin.	339	...	u8.0	2.9	2.5	18.9
¶195	F.P.	—	166	154	Int. Signal & Control A	166	...	uQ2c	4.0	0.8	30.8
¶¶	F.P.	—	72	68	Ivory & Sime 0.1p	70	...	u0.25	11.8	0.5	23.7
§190	F.P.	15/8	265	185	✠Invent Energy	227	...	—	—	—	—
§115	F.P.	9/8	123	106	✠KLP Group 5p	115	−1	g1.6	2.7	2.0	26.5
=	F.P.	6/9	31	25	✠Metal Sciences 2½p	31	+2	—	—	—	—
95	F.P.	12/8	94	88	Park Food 10p	89	−1	u3.0	9.0	4.8	16.1
§210	F.P.	9/9	214	189	Peel Hldgs	196	—	bd7.35	1.3	5.3	20.6
¶¶	F.P.	—	34	32	P'sonal AssetsTst 12½p	34	...	—	—	—	—
§111	F.P.	26/8	254	195	✠P'lyt'chnicM'rine 5p	252	−2	ud9.0	1.9	1.1	—
§25	F.P.	9/9	31	26	✠Promotions H'se 5p	30	−1	b0.7	1.0	3.3	21.4
§205	F.P.	4/8	254	195	✠Rayford Supreme	249	...	b4.9	7.0	2.9	12.4
§148	F.P.	—	190	168	✠Real Time C'trol 5p	187	...	u2.0	3.0	1.5	31.5
95	F.P.	16/8	120	97	✠SCUSA Inc. $0.01	104	...	b0.05c	4.4	1.0	25.9
§88	F.P.	19/8	93	89	✠Sthn. Bus. Leas. 10p	87	...	bg1.75	3.9	2.9	12.1
10	F.P.	24/6	18½	14	✠Sunleigh Elect. 10p	17	+½	g0.56	1.8	9.9	27.3
100	F.P.	9/9	86	78	✠Tech. for Bus. 10p	83	...	b4.2	3.0	7.2	11.6
85	F.P.	15/9	90	85	✠Thermal Scientific	88	...	b2.5	2.8	3.7	13.6
¶	F.P.	23/9	18	19	York&Lancs Inv. W's	17	...	—	—	—	—

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1983 High	1983 Low	Stock	Closing price	+ or −
92.96	£39	29/11	25¼	22	Allied-Lyons 11¾% Deb 2009	24¾	...
¶¶	F.P.	—	109	107	Atlantic Met'n (UK) 12% UL 91/97	107	...
—	£20	28/10	25¼	18	Bristol 11½% Red. 2008	20¼	−¼
96.95	£25	21/10	25	22½	G.C.C. Economic 19¼% Gtd. Ln. 2013	24¾	+¼
99.72	£30	—	33	30¼	Cigna Overseas Finance 12% Ln. 2008	32¾	−¼
£100	£10	—	11¼	11	E'tbourne W'rworks12½pcR.Deb.2004	10⅛	−⅛
100p	F.P.	9/9	103p	101p	✠FKI 7% Red Cnv Pref	102p	...
‖	Nil	—	3½pm	¾pm	Fleming Am. Inv Tst 7% Cnv Uns Ln 99	¾pm	−¼
••	F.P.	—	105p	101p	Fuller, Smith & Turner 8% 2nd Cm. Prf	103p	...
¶100p	26p	9/12	31½p	29p	LASMO 9⅜% Cum Red Pref	31½p	+¼
—	—	—	100¼	100⅛	Nationwide 11¼% Bds 20/8/84	100⅛	...
100	—	—	100⅛	99⅞	Do 11% Bds 5/9/84	100⅛	...
§100	F.P.	—	98	99	Oldham 11¼% Red 2010	95	...
98.579	£28	31/8	98	93½	Trafford Park Est. 11¾% 2007/11	94½xd	...
97.941	£26	14/10	96¾	93¼	Transport Dev 19½% Uns Ln 2008	25	−¼
99.898	£25	20/9	99¾	24½	Watn'y M en&Trum'n 12¼% Red.Deb.2008	25¾	...
103.5	—	—	102p	99½p	Weir 10% Red Cum Pref	101p	...
99.194	£29	29/10	26	23¾	Westland 19⅛% Deb 2008	25¼	−¼
¶¶	F.P.	23/9	103½	100	Yorks & Lancs Inv 13⅛% Deb 2003	104	...

"RIGHTS" OFFERS

Issue price	Amount paid up	Latest Renunc. date ●	Latest Renunc. date ■	1983 High	1983 Low	Stock	Closing price	+ or −
63	F.P.	1/8	16/9	115	84	Breegreen 10p	105	+2
¶¶	Nil	—	—	4½pm	3pm	Bridgend Proc. "A" Ord. 1p	3pm	...
48	F.P.	—	—	48¾	47	Cambrian & Gen. Sec.	48	+1
66	F.P.	—	—	68	65½	" " Cap. 7½p	68	+2
48	F.P.	—	—	56	50½	Chamberlain Phipps 10p	53½	+1
25	F.P.	—	14/9	30½	29	Crowther (J.)	30	...
34	Nil	—	16/9	38	33	✠First Talisman Inv. 50p	34	...
78	F.P.	8/8	19/9	189	112	Fleet Holdings 20p	128	+1
82	Nil	—	—	7pm	3pm	✠Floyd Oil 10p	3pm	−3
40	Nil	—	14/10	80	51	Group Lotus Car 10p	60	...
R3.80	Nil	—	—	16pm	3pm	Imperial Cold Storage 25c	15pm	...
50	Nil	—	—	38pm	29pm	‡‡Marlsex Pet. 10p	32pm	−6
350	F.P.	—	28/9	455	435	Midland Bank £1	439	+5
80	F.P.	—	—	85	81½	Nesco Invs.	85	+2
20p	Nil	—	—	7pm	4pm	Parkdale 10p	7pm	...
10	F.P.	—	—	13	11¼	✠Sheraton Secs. 10p	13	+¾
95	F.P.	—	14/10	142	129	Steinberg 10p	136	...
310	Nil	—	—	68pm	50pm	Tate & Lyle £1	93pm	...
175	F.P.	—	30/9	240	215	Unitech 10p	219	...
100	Nil	—	16/9	125pm	102pm	United Parcels 10p	120pm	...
180	Nil	—	—	53pm	50pm	✠Webber Electro 18½p	53pm	...
$US1.72	Nil	—	—	115pm	66pm	Weeks (B'muda) 10cts	115pm	...
$US1.72	Nil	—	—	130pm	80pm	Do. Aust. 10cts	130pm	...

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. g Assumed dividend and yield. u Forecast dividend cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1983. H Dividend and yield based on prospectus or other official estimates for 1983-84. Q Gross. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. Φ Figures or report awaited. § Placing price. p Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or take-over. ‖‖ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ✠ With warrants. † Effective issue price after scrip. † Formerly dealt in under special rule. †† Dealt in under Rule 163 (3).

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
*AMEC	Sept 14	Interim due	Grattan	Oct 8	Interim 1
*Armstrong Equip.	Sept 21	Final Nil	Habitat Mothercare	Sept 9	Final 2.9
*Associated Brit Pots.	Sept 15	Interim due	Hall Eng	Sept 23	Interim 9.41
*BAT Inds	Sept 21	Interim 2.5	*Hambro Life	Oct 9	Interim 4.025
*BTR	Sept 13	Interim 4.75	Hammerson Property	Oct 15	Interim 3.0
*Bank of Scotland	Sept 20	Interim 10.5	*Harris Queensway	Sept 28	Interim 1.67
*Barmn Devs	Sept 20	Final 9.85	Hawker Siddeley	Oct 20	Interim 3.7
*Barrow Hepburn	Sept 15	Interim 0.6	*Inchcape	Sept 27	Interim 7.15
Bejam	Oct 13	Final 1.5	*Laporte	Sept 21	Interim 3.5
Bell (A.)	Oct 8	Interim 3.9	*Legal and General	Sept 14	Interim 4.5
*Bilton (P.)	Oct 3	Final 3.8	*Lond Merchant Securities	Sept 18	Final 0.87
Blackwood Hodge	Sept 8	Interim 0.5	*Marchwiel	Sept 13	Interim 2.7
*Booker McConnell	Sept 15	Interim 1.5	*Menzies (J.)	Sept 22	Interim 1.5
*Bowater	Sept 13	Interim 4.25	Mills and Allen Intl.	Sept 22	Final 16.0
Bowthorpe	Oct 9	Interim 1.673	Minet	Oct 7	Interim 2.45
*British Aerospace	Sept 13	Interim 3.25	Mowlem (J.)	Oct 14	Interim 2.1
British Electric Traction	Sept 2	Final 9.137	NEI	Sept 21	Interim 1.5
British Home Stores	Oct 20	Interim 1.75	Peachey Prop.	Oct 19	Final 3.0
*Brixton Ests	Sept 13	Interim 1.7	*Pearson (S.)	Sept 12	Interim 3.75
Brooke Bond	Oct 18	Final 2.655	*RMC	Sept 21	Interim 3.7
Bryant	Oct 18	Final 3.0	*RTZ	Sept 21	Interim 5.5
*Burmah Oil	Sept 14	Interim 1.5	Rockware	Oct 13	Interim nil
Cape Indusls	Oct 6	Interim 1.7	Rowntree Mackintosh	Sept 23	Interim 2.7
*Coats Patons	Oct 13	Interim 1.4	*Rugby Portland Cement	Oct 3	Interim 2.8
*Cons Gold Fields	Sept 13	Final 18.0	Senior Eng'g	Oct 12	Interim 0.75
*Costain	Sept 13	Interim 5.0	*Shell	Sept 15	Interim 9.2
Currys	Oct 11	Interim 1.0	*Tarmac	Sept 19	Interim 3.2
*DRG	Sept 28	Interim 3.0	*Telephone Rentals	Oct 19	Interim 2.0
Dalgety	Sept 20	Final 11.0	*Travis and Arnold	Sept 28	Interim 1.4
Debenhams	Oct 8	Interim 2.041	*Turner and Newall	Sept 19	Interim 0.25
Dunlop	Sept 23	Interim 2.0	UEI	Oct 14	Interim 1.8
*Eagle Star	Sept 14	Interim 7.0	*Utd Biscuits	Sept 19	Interim 2.25
*Expamet Int	Sept 14	Interim 2.0	*Vickers	Sept 22	Interim 4.55
Finlay (J.)	Oct 7	Interim 2	*Willis Faber	Sept 13	Interim 5.0
Fisons	Sept 20	Interim 5.0	*Wimpey (G.)	Sept 29	Interim 0.85
Freemans	Oct 4	Interim 1.9			
*Generl Mining	Sept 15	Interim 55c			
Gill & Duffus	Oct 20	Interim 9.6			
Glaxo	Oct 11	Final 9.5			

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

INSURANCE

Putting life cover commissions in order

BY ERIC SHORT

UNTIL THIS year, the established life companies operated under strict controls limiting the commission paid to independent intermediaries. Now the amount paid is subject only to those restraints imposed by competition in the market place.

But apparently the life assurance establishment prefers specific controls and an orderly market to competition. For most of this year, a steering committee chaired by Mr Brian Wright of the Sun Alliance Insurance Group, has been devising a commissions agreement to replace the previous one operated by the Life Offices Association and its sister body body the Associated Scottish Life Offices.

Last week this committee unveiled its proposals for a Registry of Life Assurance Commissions, known as Rolac, under a registrar. Details are in a consultative document being sent to interested parties.

Under the proposals, there will be categories of life company—those that register and agree to abide by the rules regarding commission payments *and those that do not* register. Intermediaries will be classified not only as to whether they register but also according to the degree of specialisation in life and pensions business and the service provided.

Each type of life and pensions contract has a basic commission scale—the main scale for whole life and endowment assurances being somewhat complex. Intermediaries who are not registered or merely introduce the client to the life company will be placed in category C and receive just the basic commission. Intermediaries who sell insurance policies but *do not give specialist* advice would be category *B* and would receive a differential commission above the basic. The specialist intermediary will be placed in category A and receive an even higher differential. Registered insurance brokers are treated slightly more favourably than their non-registered counterparts in both categories A and B.

PROPOSED CATEGORIES OF LIFE ASSURANCE COMMISSION

Category	Intermediary	Commission % of basic
A(i)	Registered insurance brokers specialising in life and pensions business	152.25
A(ii)	Non-registered independent intermediaries with specialist life and pensions services	145.00
B(i)	Registered insurance brokers who are not life and pensions specialists	136.50
B(ii)	Non-registered independent intermediaries not offering a specialist service	130.00
C	Introducers of life and pension business and non-Rolac intermediaries	100.00

The table shows the categories, eligibility and the amount of differential commission paid. Building societies, accountants, solicitors and other professional businesses could qualify for category A (ii) if they have a specialist life and/or pensions advisory service; otherwise they would fall mainly in category *B* (ii). The registra would be responsible for classification on a recommendation from three independent life companies.

This contrasts with the old LOA/Aslo agreement which had just one scale applicable to all independant intermediaries.

The Rolac agreement sets out which types of indirect benefit could be made in addition to commission and which would be not permissible. For example, promotional gifts bearing tha life company's name such as diaries, golf balls and pens up to *a value of £25* would be allowed. The paying of postage and telephone bills would not be allowed.

The Rolac basic scale is below the old LOA/Aslo scale for almost all life and pension contracts. However, even the lowest differential for B (ii) will take commission payments above the old scale. So life companies in almost all cases will be paying more commission to intermediaries. However, compared with what life companies have been paying this year since the end of the old agreement, Rolac is about the same for regular premium business but less for single *premium. Life companies in* 1983 have been paying high commission rates for single premium business.

There has been growing pressure from intermediaries and within established life companies to pay differential commissions to reflect the service provided by intermediaries. An intermediary who handles much of the administration in securing new business will save costs for the life company compared with an intermediary who simply introduces the business and lets the life inspector do the work. The theory is that the new Rolac scales will adequately reward the intermediary for the service and much of the cost of the differential should be self-financing by avoiding duplication.

In addition, registered insurance brokers would receive an extra payment reflecting the higher legal standards to which they must conform, a point that the British Insurance Brokers' Association has been pressing for some time.

The steering committee hopes that all life companies will join Rolac. More than 80 have taken part in discussions and Rolac *has the support* of the Government. But Mr Ralph Sepel, chief executive of Albany Life, the chairman of the Linked Life Assurance Group, pours cold water on the idea. The group, which comprises most life companies which are not members of the main associations, is a strong supporter of the market place concept.

So what happens if intermediaries wish to deal with non-Rolac as well as with Rolac life companies? The old LOA-Aslo agreement did not impose any restraints on which company an intermediary dealt with. But this is not so with Rolac.

If an intermediary dealing with a non-Rolac company received more than the Rolac scale commission, he would be regulated to category C and only receive basic commission from Rolac companies.

The main unanswered question is bow the registrar would supervise such a system. This would appear an impossible task without the power to inspect the books and accounts of intermediaries. In any case it appears that the registrar would rely heavily on information passed by other sources.

Rolac Commissions Agreement Consultative Poper: Brion Wright chairman, Rolac Steering Committee, Sun Alliance House, North Street, Horsham, RH12 1BT.

UK COMPANY NEWS

Pilkington moving towards profitability

GLASS MANUFACTURER and processor Pilkington Brothers was maintaining its slow progress towards profitability, Mr A. R. Pilkington, chairman, told shareholders at the annual meeting.

While the directors did not expect the UK operations to return to profits at the balf year stage, they did expect them to sbow some improvement in performance wben compared with tha same period last year.

The exceptation was the fibreglass insulation division, which continued to be disappointing. Over-capacity in the industry, resulting from a very depressed market, particularly in the insulation of public sector housing, continued to have an adverse effect on tha company's market share and on margins. Cost reduction would continue to be necessary throughout the division if the company was to return to an ecceptable level of profit.

Flat glass operations had obtained an encouraging increase in volume, but in common with the company's other glassmaking and processing divisions in this country, remained subject to severe price competition. The strength of the pound in Europe made any worthwhile price increases very difficult to sustain, Mr Pilkington said.

The electro-optical division continued to perform extremely well, and the ophthalmic division was making real progress. Continuing improvements in productivity were helping to reduce costs, he added.

Overseas, there were signs that the main economic indicators were improving in the U.S. and West Germany and, to a lesser extent, in several of tha other countries where the group bad an interest

In the U.S., this improvement was already evident in tha latest results from Libbey-Owens-Ford, wbose first balf net income after tax was a little over $15m, compared with about $8m. Operating income from the glass division was over $11m for tha first six months of 1983 (loss $13m).

In West Germany, although the order book was improving, price competition from adjacent countries was becoming increasingly severe and margins were unsatisfactory.

It remained difficult to predict the extent and duration of any recovery in the world economy, but it was at least encouraging that an improvement in demand was still widely forecast Mr Pilkington concluded.

Bevan back in black this year

Metal merchant, casting and general engineer, and steel stockholder D. F. Bevan (Holdings) would return to profitability in the first half of the current year and would make tangible profits for the year as a whole, Mr John Wardle, chairman, told shareholders at the annual meeting.

Because *life* was *still* very tough in the industries in which the company operated the directors had tailored the group to meet these difficulties. At the same time they had continued with capital expenditure which had resulted in an increased share of some markets. This increase had enabled the directors to bring a previously mothballed factory back onstream this month, Mr Wardle said.

Authorised Units—continued

Offshore and Overseas—continued

Insurances—continued

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

هكذا من الأصل

INSURANCE & OVERSEAS MANAGED FUNDS

OFFSHORE AND OVERSEAS

World Wide Growth Management⊕
10a, Boulevard Royal, Luxembourg

Worldwide Gth Fd	$15.36	+0.01	—

Inv. Adv. M & G Inv. Mngt., Ltd., London

Wren Commodity Management Ltd.
10, St George's St., Douglas IoM — 0624 25015

Wren Com Fund	26.0	27.9	-1.5	—
Chinese Fund	70.1	75.0	+0.1	—
Precious Metal Fund	120.9	130.0	-1.3	—
Vanguard Cmdy Fd	39.4	40.3	+0.6	—
Financial Futures Fd	78.8	82.0	-3.0	—
Wren Intl Fnd.*	$0.687	0.716	-0.01	—

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◊ Yield column shows annualised rate of NAV increase.

FT LONDON SHARE INFORMATION SERVICE

LOANS

Public Board and Ind.

Financial

Building Societies

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT. STERLING ISSUES

CORPORATION LOANS

1JJ.A.J.O.		O 3½pc Irred.	29¼xd	16	12.15	—
15M	15N	Lon. Corp. 13¼pc '83	100⅛	15 4	13.19	10.22
1A	10	Do. 9½pc '84-85	95¼	13	9.66	11.74
15J	15J	LCC 5½pc '82-84	96	15 6	5.73	10.43
110	11J	Do 5½pc '85-87	82	11 5	6.71	11.51
10Ja	10J	Do 6¾pc '88-90	78½	10 6	8.83	11.61
1M.J.S.O.		Do. 3pc '20 Aft	24¼xd	3 5	12.32	—
15J	15D	Sunderland 12¾pc 1984	101¼	15 5	12.09	11.10

COMMONWEALTH AND AFRICAN LOANS

1J	1D	Aust. 6pc 1981-83	100¼	29 4	6.05	9.47
1Ja	1J	N.Z. 7¼pc 1988-92	77¼xd	16	9.49	11.56
150	15J	Do 7½pc '83-86	90¼xd	16 5	8.42	11.24
—		S. Rhod. 2½pc Non-Ass.	101	—	—	—
10Mar	10Sept	Do 3½pc 80-85 Assd	82	18 2	4.35	14.80
7F	7A	Do 4½pc 87-92 Assd	54	7 1	0.36	13.90
150	15A	Zimbabwe Ann (£100pa)	384	15 3	—	15.38

AMERICANS

CANADIANS

BANKS, H.P. & LEASING

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Jan.	July	ANZ $A1	295	6.6	0.28c	3.1	5.4	5.9
Feb.	Aug	Alexander, D. £1	238	15 8	20.0	—	12.0	—
May	Aug	Algemene Fl.100	£82	23 8	v026%	1.8	7.0	7.9
Dec.	June	Allied Irish	138	6.6	049%	4.2	6.9	4.7
	July	Arbuthnot (H.) 50p	85	18.7	3.5	—	5.9	—
July	Jan	Bk. Ireland £1	245	23 5	[illegible]	—	7.9	—
May	Nov.	Bank Leumi	1⅛	18.9	—	—	—	—
Aug.	Feb	Bk Leumi (UK) £1	160	15.8	18.13	—	9.1	—
Nov	May	Bank Scotland £1	498	25 4	24.0	3.6	6.9	4.4
Apr.	Oct.	Barclays £1	478	15 8	†22.0	3.6	6.6	4.0
Jan.	July	Brown Shipley £1	305	15 8	7.75	—	3.6	—
Jan.	July	Cater Allen £1	355	6.6	26.95	—	10.8	—

BANKS—Continued

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING INDUSTRY, TIMBER AND ROADS

CHEMICALS, PLASTICS

CHEMICALS, PLASTICS—Cont.

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS—Continued

ENGINEERING MACHINE TOOLS

FOOD, GROCERIES, ETC.

FOOD, GROCERIES—Cont.

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

Apr.	Nov.	Telefusion 5p	71	7.3	†1.75	3.2	3.5	9.7
Apr.	Nov.	Do. "A" N/V 5p.	71	7.3	†1.75	3.2	3.5	9.7

هكذا عنف الأهل!

INDUSTRIALS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
—		Jenn Tech Sv 20p	210	21.3	4.2	2.7	2.9	22.8
Feb	Aug.	Jacksons Bourne	208	15.8	5.0	[illegible]	3.6	ϕ
August		James Inds. 10p	32½	18.7	1.25	[illegible]	5.5	17.8
Nov.	June	Jardine M HK$5	108	25.4	080c	2.2	7.2	17.1
July	Jan	Jenks & Cattell	50	9.5	1.06	[illegible]	3.0	41.4
Oct.	Apr.	Johnson Clnrs.	310xd	5.9	110.8	2.1	5.0	8.7
Feb.	Aug.	Johnson Mthy. £1	270	20.6	10.0	[illegible]	5.3	11.3
Jan.	July	Johnston Grp. 10p.	375	23.5	6.0	[illegible]	2.3	12.6
Oct.	June	Jourdan (T.) 10p.	96	1.8	5.6	[illegible]	8.3	13.3
May	Dec.	Kalamazoo 10p	57	25.4	2.5	0.9	6.3	25.5
Sept		Kean & Scott Hldgs	48xd	5.9	M1.0	—	2.2	—
Mar. May		Keep Trust 5p	12¼	20.9	0.15	—	0.2	—
Feb	July	Kelsey Inds.	183	6.6	8.0	1.7	6.2	12.6
Nov.	April	Kershaw (A.) 5p.	145	23.2	‡15.0	0.6	‡	21.2
Jan.	Aug.	Kleen-E-Ze Hldgs.	67	18.7	3.0	ϕ	6.4	ϕ
Jan.	Aug.	L.C.P. Hlds.	100	20.6	3.6	1.2	5.1	(22.5)
Jan July		LDH Group	26½	2.6	—	—	—	—
Oct	April	L.R.C. Int. 10p.	126	1.8	3.25	2.3	3.7	14.9
July-Dec		Lamont Hldgs. 10p	28	6.6	1.3	1.8	6.6	11.0
Dec.	May	Lawtex	34	11.81	—	—	—	—
Mar.	Oct.	Lep Group 10p	480	4.7	17.5	0.3	5.2	66.5
Oct.	July	Lilleshall 10p	36	9.5	d1.0	—	4.0	—
Jan Oct		Lon. & Liv. 10p	65	23.5	h2.75	3.5	6.0	5.8
Jan.	Sept.	London & Mid'd	125	15.8	7.75	ϕ	8.9	ϕ
Jul.	Dec.	Lon. & Nthn. Grp	76	6.6	F4.2	ϕ	7.9	10.7
—		Lon. Pnv. Health	28	—	—	—	—	14.0
Mar	Oct	Longton Inds.	56xd	5.9	1.0	—	2.6	—
		Low & Bonar 50p	110	25.4	5.0	0.6	6.5	(47.3)
—		MCD Group	47	—	u1.0	2.2	3.0	21.4
—		MMT Computing 5p	80	—	b1.68	2.6	3.0	18.6
June	Dec.	M.Y. Dart 10p.	23	11.1	0.1	—	0.6	—
May	Sept.	M'c'rthy Ps. 20p	144	15.8	7.0	2.7	6.9	6.0
Oct.	May	Macfarlane Gp.	148	11.4	†3.52	2.1	3.4	17.9
July	Nov.	Maclellan 20p	33	23.5	d1.5	1.6	6.5	11.8
Aug.	Mar.	Macpherson (D.)	53	18.7	4.2	0.6	11.3	(30.3)
Oct.	Apr.	Magnolia Group	53	11.4	2.3	3.2	6.2	6.2
Apr.	Oct.	Man. Ship Can £1	140	9.80	3.5	6.8	3.7	4.2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INSURANCES

[illegible]

LEISURE

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Jan. July		A-R TV Pref £1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		Aiden Leisure 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	Aug.	Anglia TV 'A'	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	Feb.	Assoc. Leisure 5p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec.	June	Barr & W.A.T. 'A'	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan.	July	Black & Edgtn.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	Nov.	Boosey & Hawkes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar.	Nov.	Campari Int. 20p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb.	June	Fairline Boats 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		GRA Group 5p.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May Nov		Grampian TVA 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	Oct.	HTV Non/Vtg.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	Oct.	Horizon	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan Aug		Imasun 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		Intervision Video 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		Juliana's Hldgs. 2p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan Dec		LWT "A"	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	Jul	Leisuretime Int 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
June	Jan	Magmt. Ag. M 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr.	Dec.	Medminster 10p.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		Mnc World Grp 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		Nationwide 5p.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		Nimslo Int 20c	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	Sept.	Norton Opax 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		Owners Abroad	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
June Nov		Photax (Lon.)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		Pantape Dance St 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sept	Apr.	Pleasurama 5p.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		Radio City 'A' NV	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
July	Jan	Riley Leisure 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	Nov	Saga Hols. 20p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	Dec	Samuelson Grp £1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	May	Scott TV 'A' 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		SelecTV 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May Nov		TSW 5p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		TVS N'Vtg 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
—		Telemetrix Servs 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS-Cont.

[illegible]

Finance, Land etc.

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Continued

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Finance

[illegible]

Diamond and Platinum

[illegible]

MINES—continued

Central African

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
Nov	May	Falcon Rh 50c	240	15.3	070c	4.3	22.5
Nov.	May	Wankie Col. Z$1	22	25.3	05c	8.7	13.3
—		Zam.Cpr SBD0.24	19	9.8	—	—	—

Australians

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		ACM 20c	17	—	—	—	—
—		Alb.Lake Explr NL	40	—	—	—	—
—		Baldwin Resources	13	—	—	—	—
—		Black Hill Mnr.	56	—	—	—	—
—		Bond Corp	78	—	u010c	2.3	7.7
Nov	Apr	Bougainville Kina	163	11.3	[illegible]	1.2	1.3
May	Nov	CRA 50c	360	11.3	10c	—	0.5
—		Carr Boyd 20c	97	—	—	—	—
—		Central Pacific	33	—	—	—	—
—		Con Gold Mng Areas	4	—	—	—	—
—		Cooper Res. NL	11½	—	—	—	—
—		Crusader Oil	255	—	—	—	—
—		Cultus Pac NL	15½	—	—	—	—
—		Eagle Corp 10c	19	—	—	—	—
—		Emperor Mines	203	—	—	—	—
—		Endeavour 20c	11¼	—	—	—	—
—		Enterprise Gld Mine	42	—	—	—	—
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

[illegible]

REGIONAL AND IRISH STOCKS

[illegible]

OPTIONS

3-month Call Rates

[illegible]

"Recent Issues" and "Rights" Page 18

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar remains spellbound

BY JONAS CROSLAND

The dollar has continued to fluctuate in tune to varying market hopes and interpretations of U.S. M1 money supply. Whether or not this hope is illogical, irrational and immensely damaging to the stability of world trade appears to hold little sway. It has created a viscious and unnecessary whirlpool, with the U.S. Federal Reserve Bank stuck somewhere in the middle, knowing that virtually any market intervention or fine tuning or the absence of one or both of these is likely to be interpreted by the markets as some indication of official policy. The easiest answer of publishing figures monthly would probably raise problems concerning freedom of information.

U.S. authorities are sensibly monitoring movements in M2 and M3 which give a better picture as well as a more encouraging one. Even the fluctuating M1 has quietly narrowed to around the top of the Fed's target range but can only claim credibility when looked at over a period longer than one week.

For the time being the market is proving to be successful in feeding from its own nervousness. In the longer term prospects may seem a little rosier if not for the overall economic picture then at least in the way the market treats the information available to it. There will always be another "mini-refunding" package just around the corner but if the budget deficit can be seen in terms of the U.S. GNP and the latter's increase then the large sums currently being raised for central government may be less of a hindrance to a policy of lower interest rates.

There were growing signs towards the end of last week of the market's impatience to see the dollar weaker but the very nature of the weekly reaction to M1 has meant that only the very brave are likely to run low on dollars ahead of the weekend. It seems therefore that for the time being the market will confine itself to brief forays into other currencies such as the D-mark, while keeping one foot firmly jammed in the door.

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 month	6 month	12 month
Dollar	1.4930	1.4933	1.4940	1.4965	1.5000
D-Mark	3.9950	3.9819	3.9563	3.9200	3.8534
French Franc	11.9975	12.0288	12.1538	12.3785	12.7250
Swiss Franc	3.2425	3.2275	3.2000	3.1603	3.0771
Japanese Yen	365.5	364.7	362.8	360.0	353.7

EMS EUROPEAN CURRENCY UNIT RATES

	ECU central rates	Currency amounts against ECU September 9	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.9008	45.7482	+1.89	+1.25	±1.5447
Danish Krone	8.14104	8.16567	+0.30	−0.34	±1.6425
German D-Mark	2.24184	2.27420	+1.44	+0.80	±1.0642
French Franc	6.87456	6.84859	−0.38	−1.02	±1.4052
Dutch Guilder	2.52595	2.54511	+0.76	+0.12	±1.4964
Irish Punt	0.72569	0.725039	−0.09	−0.73	±1.6699
Italian Lira	1403.49	1357.96	−3.24	−3.24	±4.1505

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

BANK OF ENGLAND TREASURY BILL TENDER

	Sept. 9	Sept. 2		Sept. 9	Sept. 2
Bills on offer	£100m	£100m	Top accepted rate of discount	9.3055%	9.3456%
Total of applications	£529.95m	£416.54m	Average rate of discount	9.2834%	9.3343%
Total allocated	100m	£100m	Average yield	9.51%	9.56%
Minimum accepted bid	£97.98½	£97.97	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	88%	81%			

OTHER CURRENCIES

Sept. 9	£	$		£ Note Rates
Argentine Peso	17.49-17.61	11.695-11.719	Austria	28.00-28.90
Australia Dollar	1.6870-1.0890	1.1500-1.1965	Belgium	80.00-81.40
Brazil Cruzeiro	1,018-1,024	682.0-685.0	Denmark	14.29-14.43
Finland Markka	8.556-8.598	5.7895-5.7325	France	11.85-12.10
Greek Drachma	137.75-138.95	92.00-92.40	Germany	3.98-4.02
Hong Kong Dollar	11.42¾-11.47¼	7.05-7.67	Italy	2360-2405
Iran Rial	131.10*	88.05*	Japan	395-398
Kuwait Dinar (KD)	0.439-0.437	0.2918-0.2890	Netherlands	4.44-4.48
Luxembourg Fr.	80.10-80.80	53.68-53.70	Norway	11.08-11.18
Malaysia Dollar	3.5029-3.5125	2.3445-2.3405	Portugal	189-209
New Zealand Dlr.	2.2955-2.3005	1.5370-1.5390	Spain	218-253
Saudi Arab. Riyal	5.1990-5.2040	3.4800-3.4810	Sweden	11.74-11.85
Singapore Dollar	3.1850-3.1950	2.1330-2.1350	Switzerland	3.99-3.26
Sth. African Rand	1.0780-1.0735	1.1800-1.1210	United States	1.48½-1.50½
U.A.E. Dirham	5.4840-5.4900	3.6710-3.6725	Yugoslavia	178-188

* Selling rates.

CURRENCY MOVEMENTS

Sept. 9	Bank of England Index	Morgan Guaranty Change %
Sterling	84.7	−6.5
U.S. dollar	128.9	+17.0
Canadian dollar	82.8	+1.3
Austrian schilling	119.7	+9.5
Belgian franc	91.1	−10.8
Danish kroner	80.1	−4.8
Deutsche mark	125.8	+6.7
Swiss franc	150.8	+12.0
Guilder	115.6	+4.1
French franc	77.9	−14.8
Lira	50.3	−10.5
Yen	149.9	+8.2

Morgan Guaranty changes: average 1980-1982=100. Bank of England index (base average 1975=100).

CURRENCY RATES

SEPT. 9	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.701785	0.570038
U.S. $	8½	1.04984	0.851921
Canadian $	9.59	*	1.04880
Austria Sch	3¾	19.6918	15.9565
Belgian F	9	56.3449	45.7482
Danish Kr.	7¼	10.0575	8.16567
D mark	4	2.79940	2.27420
Guilder	5	3.13389	2.54511
French F.	9½	8.43599	6.84859
Lira	17	1679.99	1357.90
Yen	5½	257.211	208.440
Norwgn Kr.	9	7.83399	6.34596
Spanish Pta	—	n/a	128.981
Swedish Kr	8½	8.29974	6.71570
Swiss Fr.	4	2.27574	1.84850
Greek Dr'ch	20½	96.9632	78.7431

*C$/SDR rate for Sept 8: 1.2889t.

THE POUND SPOT AND FORWARD

Sept 9	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.4905-1.4975	1.4925-1.4935	par-0.05c dis	−0.20	0.12-0.17dis	−0.39
Canada	1.8350-1.8410	1.8380-1.8390	0.12-0.02c pm	0.46	0.17-0.07 pm	0.26
Nethlnd.	4.45-4.47½	4.46-4.47	1½-1¼c pm	3.63	3¾-3¼ pm	3.25
Belgium	80.05-80.35	80.10-80.20	10c pm-par	0.75	10 pm-par	0.25
Denmark	14.30-14.35	14.30½-14.31½	4¼-6¼ore dis	−3.98	7½-8½ dis	−3.27
Ireland	1.2700-1.2745	1.2735-1.2745	0.17-0.22p dis	−1.84	0.56-0.63dis	−1.87
W. Ger.	3.97½-4.00½	3.99-4.00	1½-1¼pf pm	3.94	4-3¾ pm	3.88
Portugal	184.50-186.00	184.75-185.25	175-440c dis	−19.94	510-1205dis	−19.54
Spain	225.75-226.75	226.10-226.30	235-325c dis	−14.86	950-1110dis	−19.21
Italy	2377-2385	2379-2381	14-19lire dis	−7.56	46½-49½dis	−8.07
Norway	11.08-11.13	11.11½-11.12½	3-3¾ore dis	−3.57	9¾-10¼ dis	−3.66
France	11.98-12.03	11.99¾-12.00¾	2¾-3¼c dis	−8.13	15-16¼ dis	−5.21
Sweden	11.75½-11.79½	11.76¾-11.77¾	1½-2ore dis	−1.78	4¾-6¾ dis	−1.74
Japan	364-366½	365-366	0.87-0.75y pm	3.66	2.65-2.47 pm	2.80
Austria	27.95-28.10	28.00-28.05	9½-8gro pm	3.76	26¾-22¾ pm	3.49
Switz.	3.22½-3.25½	3.23¾-3.24¾	1½-1¼c pm	5.56	4½-4 pm	5.24

Belgian rate is for convertible francs. Financial franc 54.27-54.33. Six-month forward dollar 0.32-0.37c dis. 12-month 0.65-0.75c dis.

THE DOLLAR SPOT AND FORWARD

Sept 9	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4905-1.4975	1.4925-1.4935	par-0.05c dis	−0.20	0.13-0.17dis	−0.39
Ireland†	1.1720-1.1790	1.1730-1.1740	0.30-0.24c pm	2.75	0.82-0.75 pm	2.69
Canada	1.2305-1.2317	1.2310-1.2310	0.09-0.08c pm	0.73	0.23-0.20 pm	0.70
Nethlnd.	2.9850-2.9920	2.9880-2.9900	0.96-0.85c pm	3.61	2.80-3.70 pm	3.68
Belgium	53.65-53.78	53.68-53.70	6-5c pm	1.23	11½-10 pm	0.80
Denmark	9.5715-9.5915	9.5850-9.5900	3.60-3.10ore dis	−3.57	0.60-1.10dis	−0.35
W. Ger.	2.6640-2.6835	2.6735-2.6745	0.96-0.91pf pm	4.20	3.90-3.85 pm	4.21
Portugal	123.60-124.40	123.90-124.20	115-280c dis	−18.58	330-790dis	−18.06
Spain	151.30-151.70	151.45-151.55	170-200c dis	−14.65	620-720dis	−17.68
Italy	1593-1596½	1593¾-1594¾	10-10½lire dis	−7.71	30½-32 dis	−7.84
Norway	7.4400-7.4535	7.4475-7.4525	1.90-2.20ore dis	−3.30	5.80-6.20dis	−3.25
France	8.0250-8.0650	8.0375-8.0425	1.85-2.00c dis	−2.87	9.40-9.70dis	−4.75
Sweden	7.8775-7.8940	7.8775-7.8825	0.90-1.10ore dis	−1.53	3.45-2.65dis	−1.23
Japan	244.20-245.10	244.55-244.65	0.61-0.56y pm	2.87	2.00-1.92 pm	3.21
Austria	18.74-18.81	18.78-18.79	0.70-5.90gro pm	4.03	18.50-17.00pm	3.83
Switz.	2.1640-2.1750	2.1700-2.1710	1.05-1.00c pm	9.88	3.10-3.05 pm	5.68

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

EXCHANGE CROSS RATES

Sept. 9	Pound St'rling	U.S. Dollar	Deutschem'k	Japanese Yen	French Franc	Swiss Franc	Dutch Guild	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	1.493	3.995	365.5	11.998	3.243	4.465	2380.	1.839	80.15
U.S. Dollar	0.670	1.	2.076	244.8	8.030	2.172	2.991	1594.	1.231	53.68
Deutschmark	0.250	0.374	1.	91.49	3.003	0.812	1.118	599.7	0.460	20.06
Japanese Yen 1,000	2.739	4.085	10.93	1000.	32.82	8.871	12.22	6518.	5.030	219.9
French Franc 10	0.834	1.244	3.330	304.6	10.	2.703	3.722	1984.	1.533	66.81
Swiss Franc	0.308	0.460	1.232	112.7	3.700	1.	1.377	734.0	0.567	24.78
Dutch Guilder	0.224	0.334	0.895	81.86	2.687	0.720	1.	533.0	0.412	17.95
Italian Lira 1,000	0.420	0.627	1.079	153.6	5.041	1.362	1.870	1000.	0.772	33.68
Canadian Dollar	0.544	0.812	2.173	198.8	6.520	1.764	2.428	1280.	1.	43.90
Belgian Franc 100	1.248	1.863	4.984	456.0	14.97	4.046	5.571	2969.	2.294	100.

FINANCIAL FUTURES

LONDON

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
Sept	90.18	90.21	90.13	90.20
Dec	89.59	89.59	89.52	89.60
March	89.31	89.31	89.25	89.31
June	89.09	89.10	89.09	89.11
Sept	88.91	88.91	88.90	88.93

Volume 1,406 (2,522)
Previous day's open int. 5,439 (5,353)

THREE-MONTH STERLING DEPOSIT £250,000 points of 100%

	Close	High	Low	Prev
Sept	90.53	90.55	90.45	90.50
Dec	90.15	90.15	90.07	90.08
March	89.85	89.87	89.78	89.78
June	89.55	89.55	89.50	89.50
Sept	89.30	—	—	89.34

Volume 787 (1,480)
Previous day's open int. 3,548 (3,736)

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
Sept	102-20	102-20	102-17	102-11
Dec	105-01	105-09	104-18	104-23
March	104-20	—	—	104-10
June	104-06	—	—	103-28
Sept	103-24	—	—	103-14

Volume 2,384 (3,733)
Previous day's open int. 4,227 (3,846)
Basis quote (clean cash price of 15¼% Treasury 1998 less equivalent price of near futures contract) par-08 (32nds)

STERLING £25,000 $ per £

	Close	High	Low	Prev
Sept	1.4945	1.4965	1.4910	1.4920
Dec	1.4950	1.4990	1.4930	1.4937
March	1.4980	—	—	1.4955

Volume 137 (440)
Previous day's open int. 1,116 (952)

DEUTSCHE MARKS DM 125,000 $ per DM

	Close	High	Low	Prev
Sept	0.3745	0.3750	0.3740	0.3735
Dec	0.3787	0.3793	0.3782	0.3776
March	0.3820	0.3826	0.3826	0.3815

Volume 97 (209)
Previous day's open int. 444 (440)

SWISS FRANCS SwFr 125,000 $ per SwFr

	Close	High	Low	Prev
Sept	0.4611	0.4611	0.4601	0.4603
Dec	0.4680	0.4682	0.4670	0.4669
March	—	—	—	—

Volume 35 (52)
Previous day's open int. 243 (233)

JAPANESE YEN Y12.5m $ per Y100

	Close	High	Low	Prev
Sept	0.4091	—	—	0.4084
Dec	0.4123	0.4123	0.4121	0.4119
March	—	—	—	—

Volume 10 (50)
Previous day's open int. 186 (175)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
Sept	71-16	71-17	71-09	71-07
Dec	70-31	71-01	70-24	70-22
March	70-15	70-17	70-09	70-06
June	70-02	70-03	69-29	69-25
Sept	69-23	69-25	69-19	69-14
Dec	69-14	69-15	69-09	69-05
March	69-06	—	—	68-29
June	68-31	68-91	68-26	69-22
Sept	—	—	—	—
Dec	—	—	—	—
March	—	—	—	—

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev
Sept	—	—	—	—
Dec	90.46	90.50	90.45	90.44
March	90.16	90.18	90.15	90.12
June	89.96	89.97	89.95	89.92
Sept	89.78	89.79	89.78	89.76
Dec	89.62	89.62	89.61	89.59
March	89.46	89.46	89.45	89.43
June	89.31	89.31	—	89.29

CERT. DEPOSIT (IMM) $1m points of 100%

	Close	High	Low	Prev
Sept	90.40	90.42	90.37	90.35
Dec	89.77	89.78	89.74	89.73
June	89.20	89.21	89.17	89.14

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev
Sept	89.84	89.86	89.81	89.78
Dec	89.31	89.34	89.29	89.27
Feb	—	—	—	—
March	89.01	89.03	88.89	88.56
June	88.81	88.82	88.78	88.76

STERLING (IMM) $e per £

	Close	High	Low	Prev
Sept	1.4930	1.4975	1.4925	1.4910
Dec	1.4960	—	1.4940	1.4930
March	1.4970	1.5015	1.4965	1.4945
June	1.4985	—	—	1.4960
Sept	—	—	—	—
Dec	—	—	—	—

GNMA (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
Sept	69-22	69-28	69-17	69-18
Dec	68-20	68-27	68-14	69-16
March	67-22	67-29	67-18	67-18
June	67-01	67-03	66-29	64-29
Sept	66-19	—	—	66-12
Dec	66-02	66-03	66-00	65-30
March	—	—	—	—
June	65-13	65-12	65-10	65-08
Sept	—	—	—	—
Dec	—	—	—	—
March	—	—	—	—
June	—	—	—	—

WEEKLY CHANGE IN WORLD INTEREST RATES

	Sept. 9	change		Sept 9	change
LONDON			NEW YORK		
Base rates	9½	Unch'd	Prime rates	11	Unch'd
7 day interbank	9¾	+1/16	Federal funds	9⅛	+⅛
3 mth interbank	9¼	−¼	3 mth Treasury Bills	8.12	−0.12
Treasury Bill Tender	9.2934	−0.0409	6 Mth. Treasury Bills	9.38	−0.19
Band 1 Bills	9½	Unch'd	3 Mth. C D	9.80	−0.25
Band 2 Bills	9½	Unch'd	FRANKFURT		
Band 3 Bills	9 7/16	Unch'd	Lombard	5.50	+0.5
3 Mth. Treasury Bills	9⅜	+1/32	One Mth. Interbank	5.075	+0.125
1 Mth. Bank Bills	9 1/32	+1/32	Three month	5.875	−0.075
3 Mth. Bank Bills	9 1/32	Unch'd	PARIS		
TOKYO			Intervention Rate	12.25	Unch'd
One month Bills	6.78125	Unch'd	One Mth. Interbank	12.4375	Unch'd
Three month Bills	6.78125	Unch'd	Three month	12.4375	Unch'd
BRUSSELS			MILAN		
One month	8⅝	−⅜	One month	17⅜	+⅛
Three month	9 1/16	Unch'd	Three month	17⅝	+⅛
AMSTERDAM			DUBLIN		
One month	6	+⅛	One month	12⅝	−⅛
Three month	6⅛	+⅛	Three month	12 1/16	−⅛

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills 34 to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

MONEY MARKETS

Sterling rates marking time

A casual glance at UK interest rates on Friday would have shown that there has been a small decline from rates prevailing about a month ago. Their performance in relation to UK economic trends has been difficult to gauge with any precision however since outside influences have played a major part. Much has been said of the need to see a fall in U.S. interest rates to set the ball rolling but there are several other important factors to be taken into account.

Last week's balance of payments figures provided much food for thought with a second quarter current account deficit of £0.3bn after a surplus of £0.5bn in the previous quarter. Some analysts were quick to suggest that in order to counter further deficits, there would have to be a greater incentive to encourage larger short-term capital inflows. This could be at the expense of any ideas on lower interest rates without a corresponding fall in rates elsewhere or possibly by allowing sterling to depreciate. On the other hand, however, downward pressure on rates could start to grow shortly, in view of Government philosophy that money supply and inflation are intrinsically linked, because monetary growth is showing continued progress towards an annualised rate within projected targets and inflation now seems less likely than previously thought to accelerate sharply this winter.

It may well be that with the prospect of unrestricted foreign exchange transactions after the fate of the Labour Party at the last general election, the UK will increase its attractiveness to overseas depositors. For the time being however UK interest rates are marking time.

In Frankfurt the Bundesbank's half point increase in the Lombard rate to 5½ per cent was taken fairly calmly but succeeded in producing the usual knock on effect with the Austrian Lombard rate moving half a point firmer and the Dutch discount rate and special loan rates. The German discount rate was left untouched however at 4 per cent.

LONDON MONEY RATES

Sept. 9 1983	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount Market Deposits	Treasury Bills ◆	Eligible Bank Bills ◆	Fine Trade Bills ◆
Overnight	—	7-10½	9⅛	—	—	9⅛-10⅛	8-9¾	—	—	—
2 days notice	—	—	8⅝-9¾	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	9⅞-10	—	—	—	—
7 days notice	—	9⅝-10	9⅝-9¾	—	—	—	9½	—	—	—
One month	9¾-9 11/16	9⅝-9¾	9⅝	10-9¾	9⅝	9¾	9⅛	9 17/32	9 17/32	10 3/16
Two months	9 13/16-9 11/16	9⅝-9¾	9⅝	10⅛-9¾	9¾	9⅞	9⅝	9 7/16	9½-9 13/32	10 1/16
Three months	9 13/16-9⅝	9 13/16-9 11/16	9⅝	10¼-9⅛	9¾	9½	9⅝	9⅝	9⅝-9 13/32	10
Six months	9 15/16-9 13/16	9 15/16-10 1/16	9⅞-10	10-9¾	10	—	—	—	9⅝	10
Nine months	9 13/16-9⅞	10 1/16-10 3/16	9⅞-10	10½-10¼	10¼	—	—	—	—	—
One year	10-9 15/16	10 3/16-10½	10⅛	10½-10¼	10⅜	—	—	—	—	—
Two years	—	—	11-11⅛	—	—	—	—	—	—	—

ECGD Fixed Rate Export Scheme IV. Average Rate for interest period August 3 to September 6, 1983 (inclusive) 9.930 per cent.

Local authorities and finance houses seven days' notice, others seven days fixed. Long-term local authority mortgage rates nominally three years 11¼-11⅜ per cent; four years 11½ per cent; five years 11⅝ per cent. ◆Bank bill rates in table are buying rates for prime paper. Buying rate for four-months bank bills 9⅜ per cent; four months trade bills 10 per cent.

Approximate selling rate for one month Treasury bills 9½ per cent; two months 9 13/32 per cent and three months 9 11/32 per cent. Approximate selling rate for one month bank bills 9½ per cent; two months 9 13/32 per cent and three months 9 13/32 per cent; trade bills 9 27/32 per cent; two months 9 13/16 per cent and three months 9¾ per cent.

Finance Houses Base Rate (published by the Finance Houses Association) 10 per cent from September 1, 1983. London and Scottish Clearing Bank Rates for lending 9½ per cent. London Deposit Rates for sums at seven days' notice 8 per cent.

Treasury Bills: Average tender rates of discount 9.2934 per cent. Certificates of Tax Deposit (Series 6). Deposits of £100,000 and over held under one month 9¾ per cent; one-three months 10 per cent; three-six months 10¼ per cent; six-12 months 10¼ per cent. Under £100,000 9½ per cent from September 1. Deposits held under Series 4-5 10 per cent. The rates for all deposits withdrawn for cash 8 per cent.

INTEREST RATES

EURO-CURRENCY INTEREST RATES

(Market closing rates)

Sept. 9	Short term	7 days notice	Month	Three Months	Six Months	One Year
Sterling	8⅝-8¾	9⅝-9¾	9⅝-9¾	9 11/16-9 13/16	9 15/16-10 1/16	10 1/16-10 3/16
U.S. Dollar	9⅜-9⅝	8½-9¼	9⅝-9⅞	9 13/16-10 1/16	10⅛-10 3/16	10 7/16-10⅞
Can. Dollar	8¾-9¼	9-9½	8½-9¼	9¼-9⅝	9 11/16-9 13/16	10 1/16-10 5/16
D. Guilder	5½-6⅛	5⅝-6⅛	6-6⅛	6¼-6⅝	6⅜-6⅝	6⅝-6⅞
S. Franc	2½-2¾	2½-2¾	4-4⅛	4 3/16-4 5/16	4⅜-4¾	4 7/16-4 9/16
Deutschm'rk	5⅝-5½	5 5/16-5 7/16	5½-5⅝	5⅝-5¾	5½-5⅝	6⅜-6½
French Franc	12¼-12½	19¼-12⅛	12⅝-12⅞	14¾-15	16½-16¾	16¾-17
Italian Lira	15¾-18¼	16-17½	17-17½	17¾-18¼	18½-12	19½-20
Belg. Franc Conv.	8¼-8¾	8¼-8¾	8¾-8⅞	9⅛-9⅝	9¾-10¼	10¼-10¾
Belg. Franc Fin.	8¼-8¾	8½-8¾	8 11/16-8 15/16	9 1/16-9 5/16	9½-9¾	10-10¼
Yen	6 3/16-6 7/16	6 1/16-6 5/16	6⅛-6 5/16	6⅜-6⅞	6 5/16-6 9/16	6¼-6⅞
D. Krone	14¼-14¾	14½-14⅞	13¼-13¾	11⅞-12⅝	11⅛-12	11½-12
Asia $ (Sing.)	9⅛-9⅜	9 3/16-9 5/16	9¾-9⅞	10-10⅛	10 3/16-10 5/16	10 7/16-10 9/16

FT LONDON INTERBANK FIXING

11.00 a.m. SEPTEMBER 9

3 month U.S. dollars		6 month U.S. dollars	
bid 10	offer 10 1/8	bid 10 5/16	offer 10 7/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Prime rate	11
Fed funds (lunch-time)	9½-9¾
Treasury bills (13-week)	9.12
Treasury bills (26-week)	9.32

GERMANY

Lombard	5.9
Overnight rate	5.525
One month	5.675
Three months	5.875
Six months	9.375

FRANCE

Intervention rate	12.25
Overnight rate	12.5
One month	12.4375
Three months	12.4375
Six months	12.5625

JAPAN

Discount rate	5.5
Call (unconditional)	6.53125
Bill discount (3-month)	6.78125

SWITZERLAND

Discount rate	4
Overnight rate	2½-3⅛
One month	4 1/16-4 3/16
Three months	4 3/16-4 5/16

NETHERLANDS

Discount rate	5
Overnight rate	6-6⅛
One month	5 15/16-6 1/16
Three months	6 5/16-6 7/16
Six months	6 7/16-6 9/16

$ CERTIFICATES OF DEPOSIT

One month	9.55-9.65
Three months	9.75-9.85
Six months	10.1-10.2
One year	10.45-10.55

LONG TERM EURO $

Two years	11⅛-11⅜
Three years	11½-12⅝
Four years	12-12¼
Five years	12¼-12½

SDR LINKED DEPOSITS

One month	9 13/16-9 15/16
Three months	9⅜-9½
Six months	9½-9¾
One year	9⅞-10⅛

ECU LINKED DEPOSITS

One month	9 11/16-9 13/16
Three months	9 13/16-9 15/16
Six months	9 15/16-10 1/16
One year	10 3/16-10 5/16

The following securities have been added to the Share Information Service:
Aurora 9% Conv. Cum. Red. Pref (Section: Engineering)
Castle (G.B.) (Stores)
City Site Estates (Property)
Ivanhoe Gold N.L. (Mines—Australian)
Nationwide B.S. 10 7/16pc Bds 9/7/84 (Loans—Building Soc.)
Nationwide B.S. 10½pc Bds 30/7/84 (Loans—Build'g. Soc.)
Stainless Metalcraft (Industrials)

هكذا في الأصل

FINANCIAL TIMES SURVEY

HONG KONG

Hong Kong has built its prosperity through confidence, versatility and hard work. Its econ my is thriving again after recessionary 1982 but the glittering superstructure rests on shaky foundations. Britain's lease over Hong Kong is running out, and a new future must be negotiated with China. A territory accustomed to crises faces its toughest test

China's child but a different image

By ROBERT COTTRELL

"It is like Shanghai. Shanghai went. Hong Kong is going now."
—an elderly Chinese businessman

"It is about time Hong Kong grew up. It has been behaving like a spoilt child."
—an expatriate investment manager

"If it goes wrong it is us who will get the blame."
—a British civil servant

"I don't think there is any need for Hong Kong to be concerned . . . what do they have to be concerned about?"
—Chinese Premier Zhao Zhiyang.

TO LIVE and work in Hong Kong in 1983 is to see embodied in contemporary politics the dynamics of classical tragedy—a conspiracy between history and a superior power to enmesh a protagonist in a seemingly irreversible sequence of events at whose end lies destruction. The drama is still far from over—it may even yet conjure up a happy ending — and any potential destruction would not be of Hong Kong in the absolute but only of Hong Kong in its present form. It would be foolish, however, to pretend that the possible future now confronting Hong Kong could be better expressed in more neutral or prosaic terms.

Hong Kong has built itself out of nothing into a city of an international importance comparable with that of, say, Paris or Los Angeles. It is the No. 1 garment exporter, No. 3 container port, No. 3 financial centre and 17th-largest trading unit in the world. Despite the absence of effective democracy its society is by world standards free and fair and its government uncorrupt. Hong Kong's people have produced a post-war economic miracle of biblical proportions—the feeding of the 5m, with no more resources than hard work, a fine harbour and constant immigration.

Hong Kong is frequently described by China as "a problem left over from history." It is indeed hard now to defend Britain's 19th-century seizure of Hong Kong as booty from "opium wars" fought against an enfeebled China. Bot except in those historical terms it is surreal to present prosperous present-day Hong Kong as a form of problem rather than a form of solution.

The prospect facing Hong Kong is that in less than 14 years it will be united with a nation whose social and economic ideologies could scarcely be more foreign to Hong Kong's own. Hong Kong may be China's child but it has not grown np in China's image.

Total uncertatinty

On July 1, 1997, the point at which Britain's 99-year lease over most of the territory expires, China is determined to recover sovereignty over the whole of Hong Kong and to exercise that sovereign power in deciding how Hong Kong is to be administered. The form of administration which China is currently proposing is one which would grant to Hong Kong substantive autonomy, including the freedom to maintain a capitalist way of life and work. It is a heartening aim on paper but a difficult one to imagine working in practice.

For decision-makers in business and government, trying to maintain some semblance of normality in the face of total uncertainty, 1997 is an obsessive and numbing consideration. For the broad mass of Hong Kong's 5.2m Chinese populace there is little choice but to live with whatever the future holds. Britain says it has a moral duty to argue hard with China for a political settlement which it believes would be acceptable to the Hong Kong people—but it does not acknowledge a moral duty to let those who can afford the airfare come to live and work on British soil. No Falklandisation for Hong Kong passports.

The issue of Britain's arms-length treatment of Hong Kong passports illuminates the division between Britain and China over who takes what responsibility for Hong Kong's welfare. China sees Hong Kong as an unwillingly annexed part of the integral motherland and Hong Kong's people as China's own compatriots. In Peking's eyes, to support reunification of Hong Kong with the motherland is to be a Chinese patriot. To oppose it is to be a traitor to the race. The question is one in which Britain has no *locus standi*.

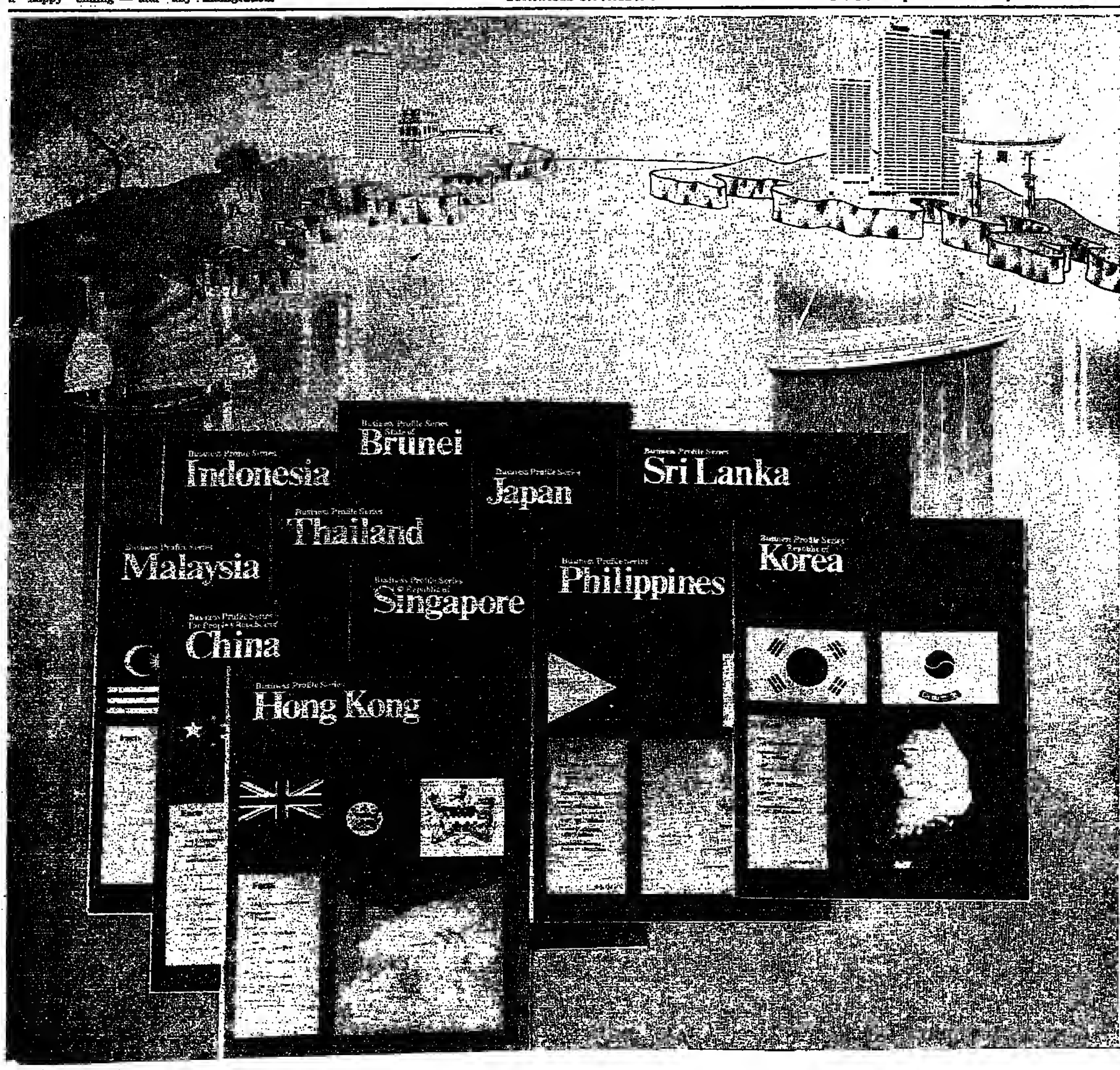
Britain's proclaimed "moral obligation" to Hong Kong appears to turn on a belief that the affinities which Hong Kong

CONTINUED ON PAGE XVI

Contents

● This survey was written by Robert Cottrell, Hong Kong Correspondent; with contributions by Peter Montagnon, Andrew Fisher and Anthony Moretoo. Other articles are by Christopher Wood, Teresa Ma and Mary Lee of the Far Eastern Economic Review; Jim Walker, Willie Mark, Peter Wesley-Smith, Martin Lee, Stephen Cheong and Michelle Misquitta.

● Editorial production was by Arthur Dawson. Design: Philip Hunt. Pictures: Glyn Genin.



1997: Negotiations over the future of the Colony are proceeding but for its citizens it is a time of nervousness and uncertainty

Key date casts long shadow

THE CHINESE language is rich in elegant and aimple phrases to summarise awkward and complex political issues. Hong Koog is said to be "a problem left over from history." China will take "suitable" action at a "suitable" time. The solution is to be "Hong Kong rule by Hoog Koog people," or perhaps "Honk Kong rule by Hong Kong laws."

Britain, too, has acquired the taste for the mantra-like phrases which prove so effective a substitute for aubstantive public comment on Hong Kong's future. The most prevalent incantation of all is the crux of the joint Sino-Britisb communique issued when Mrs Thatcber visited Peking last Septemher, in which hoth sides pledge themselves to the maintenance of Hong Kong's "stability and prosperity."

British position

Britain never tires of commenting that settlement with China must be "acceptahle to the people of *Hong Kong.*" Anybody asking for clarificatioo of the British position on sovereignty over Hong Kong will be told that the British positioo is "well-known," — despite the probahility that the British position on sovereignty over Hong Kong on any given day can he known scarcely to two dozen people in the entire world.

It migbt be inferred that Britaio and China are conducting their negotiations on the future of Hong Kong in such a way as methodically to ensure the maximum insult to the intelligence and sensihility of those Hong Kong people who will in the end be the only ones substantively affected by whatever settlement may or may not be reached.

Chioa happily and regularly advertises the warm welcome which it expects reunification to receive from a society hased largely on refugees from China itself. Britain simply and frankly refuses to tell Hong Kong people anything at all about wbat their Government is planning aa their future.

Sir Edward Youde, Governor of Hong Kong, wben asked in a television interview what flag would be flying over Hong Kong in 20 years' time, cooly replied that he "would think the hest thing for people to do is oot to look at details of what might happen."

It would be wrong, bowever, to place too harsh an interpretatioo upon Chinese and British governmental conduct in the last year—the period during which the question of Hong Kong's future has boiled over into obsessive popular concern. The reliance upon cliches and euphemisms reflects a need oo hoth British and Chinese sides for aome puhlic symbols of intellectual continuity through periods of uncertainty if not utter confusion.

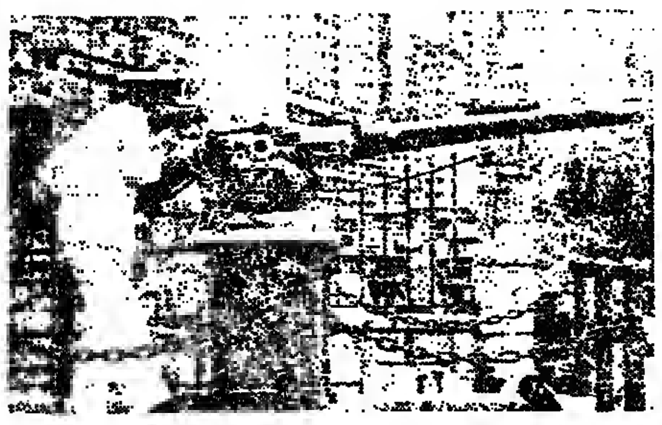
Britain's vow of confidentiality toward the negotiations on Hong Kong's future has spared it the embarrassment of baving to admit for many months that there was virtually no progress to speak of. China's pro-reunification rbetoric fills up the thinking space which might otherwise be used to wonder whether Hong Kong *people* do *actually* want new proprietors to take over their economic miracle.

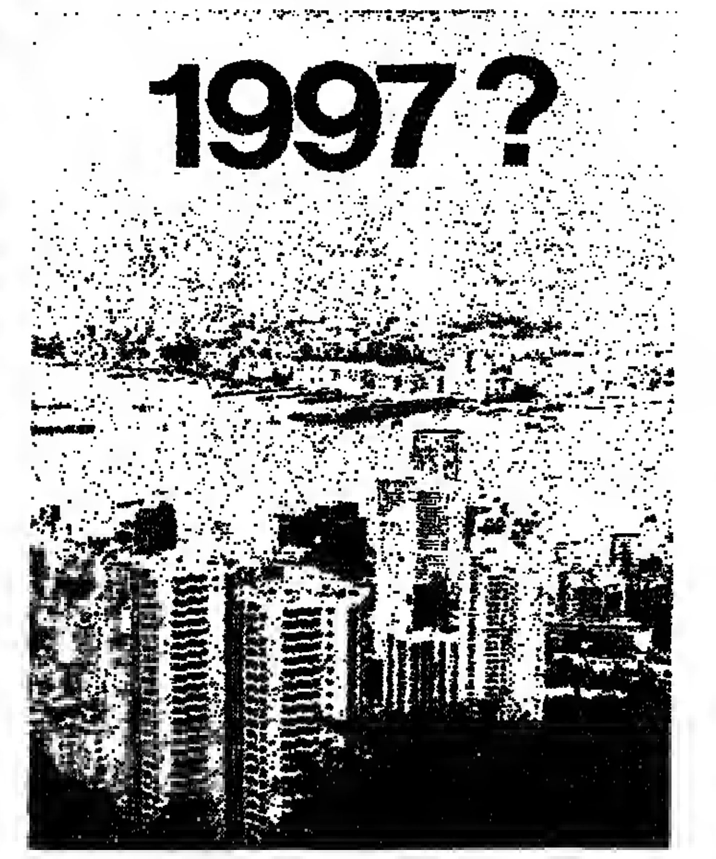
At the time of writing this survey, the Sino-British negotiations on the future of Hong Kong were in recess, with a new round due to begin on September 22. Whila the two sides seemed to retain strongly differing opinions — China favouring an autonomous Hong Kong administration, Britain favouring a continued Britisb linkage—at least the continuance of the talks showed that the two sides had establisbed enough common ground to open a dialogue.

Tbe good will engendered by the talks remained, however, vulnerable to such remarks as those attributed to Communist Party leader Hu Yaobang, who told a visiting Japanese delegation in mid-August that China would take hack Hong Kong on July 1, 1997—the day after the expiry of British's lease over the New Territories.

Such remarks serve as a reminder that, even though China has entered into negotiations on the future of Hong Kong, it has not committed itself to a negotiated settlement.

Robert Cottrell





Hong Kong landmarks: Top left: The "noonday gun" of Jardine Mathesoo *is still fired daily*, one of the *last vestiges* of Hong Koog's colonial tradition. Celehrated in aong by Noel Coward, the gun is boused on the Hong Kong Island waterfront at Causeway Bay. Bottom left: how Hong Kong harbour looked in 1879 (from the John Hillelson collection). Above: Vice-Admiral Ruitako Fujita signing the *surrender* of Hong Kong in 1945 after *four years* of Japanese occupation. Right: *waiting for* 1997.

The history of events leading to the present exchanges

1841-42: Britain acquires Hong Kong Island from Cbina in perpetuity by a treaty signed to end opium war hostilities.

1860: Britain acquires Sonthern Kowloon, as far north as Boundary Street, in perpetuity, again hy a treaty eoding hostilities.

1898: Britain gains the New Territories, nine-tenths of Hong Kong's present land area, on a 99-year, rent-free lease.

1899: Britain revokes certain clauses favourable to China in the New Territories lease.

1945: Britain resumes Government of Hong Kong after Japanese occupation.

1967: Hong Kong is shaken by riots sympathetic to China's cultural revolntion—bnt China mokes no concerted attempt to seize back Hong Kong.

1979: Chinese leoder Deng Xiao-Ping tells Hong Kong investors to "set tbeir hearts at ease" abont Hong Kong's fnture. This statement is credited hy some analysts with belping to fuel a local property boom.

1982: September. British Prime Minister Mrs Thatcher visits Peking, meets Deng Xiao-Ping and Prime Minister Zhao Zhiyang. The leaders agree that Hong Koog's future must be resolved. A communiqua is issued which reads: "The leaders of (Britain and China) held far-reaching talks in a frieodly atmosphere on the future of Hong Kong. Both leaders made clear their respective positions oo this subject: they ogreed to enter into talks throngb diplomatic channels following the visit, with the common aim of maintaining the stability and prosperity of Hong Kong."

October: Tho Hong Kong stock market plunges 25 per eent in the week after the Thatcher visit. The Governor of Hong Kong, Sir Edward Yonde, says talks bave already begun in Peking to follow np the Thatcher visit. China begins methodically promulgating the concept of a self-ruled Hong Koog under Chinese sovereignty.

1983: January/February (precise date unknown) Mrs Thatcher writes privately to Zhao Zhiyang, apparently indicating areas of flexiblity in the British position. The letter is intended to belp break a deadlock arising from China's insistence that Britain must coocede sovereignty hefore agreement on administration. No evidence that the "talks" in Peking are yet any mora than procedural paper-sbuffling.

June: Britain's General Election, China's National People's Congress.

July-August: British and Chinese delegations meet in Peking for first acknowledged formal talks on the Hong Kong issue. Three rounds of talks yield no disclosed tangible results, hnt another round is scheduled for September.

August: Communist Party leader Hn Yaobang tells a visiting Japanese delegation that China will take back Hong Kong on July 1, 1997.

The negotiating positions

China wants Hong Kong to be administratively ontonomous under Chinese sovereignty, *maintaining its capitalist system* and existing institutions. China claims that all of Hong Kong is rightfully China's, having been ceded only under duress, but indicates that it will "respect history" by working towards a political transition when Britain's lease over the New Territories expires in 1997.

Britain doubts that Hong Kong's integrity could survive without a British administrative linkage to insulata tho territory from the politics of mainland China. It is trying to find a compromise which would give China titular sovereignty over Hong Kong, but retain British links in administrative terms sufficient to guarantee political and social stability.

The treaties form the crux of the legal argument

Context of international law

PETER WESLEY SMITH

Dr Peter Wesley Smith is Senior Lecturer in Law at Hong Kong University, ond author of "Unequal Treoty 1898-1997"

LEGALLY, HONG KONG is an amalgamation of three separate territories separately acquired. After the skirmishes of the oplum war Hong Kong Island was formally ceded by the Treaty of Nanking 1842: that is, China solemnly agreed that ber Britannic Majesty Queen Victoria and ber beirs and successors should possess the territory in perpetuity and should govern it by such laws as she sbould see fit to direct.

Similarly, in 1860, after further bostilities, His Imperial Majesty the Emperor of China agreed to cede a few square miles of Kowloon (the portion of mainland closest to Hong Kong Island) to the British Queen, "to have and to hold, as a dependency of ber Britannic Majesty's colony of Hong Kong . . ."

There can he no dispute that, as international law was understood at the time, these cessions meant a permanent transfer of each territory from the sovereignty of the Chinese Emperor to the aovereignty of the British Queen. It is equally indisputable that they were achieved through the use of force hy an aggressive, imperialistic nation imposing its will on the government of a proud and civilised people.

The third portion of Hong Kong to be acquired hy Britain was the New Territories, a larger bite of land and sea contiguous to Hong Kong Island and Kowloon. This time there was no cession but a lease for 99 years. The treaty was not the conclusion of war between Britain and China yet the atmosphere during the negotiations in 1898 was bardly conducive to a Chinese decision free from intimidation.

It is thia lease which expires in 1997 and which gives rise to the current uncertainties.

Since the overthrow of the Ch'Ing dynasty auccessive Chinese governments have condemned these three Hong Kong treoties as "unequal," there being no equality of bargaining power betweeo the parties and no reciprocity in the advantages gained aod the burdens borne.

The Republican (Nationalist) authorities have generally urged this as a good reason why Great Britain ahould reoegotiate or ahrogate the treaties, but the treaties' validity at law has been ossumed. Publicists for the Government of the People'a Republic hove bowever asserted that the uoequal treaties are illegal, void, not legally binding, null, without legal validity and ao forth, nhrases suggesting that the treaties are worth even less than the paper on which they are engraved.

It is possible thet China now regards them in legal terms as voidable rather than utterly and always void, hut the polemicists have not been preciae or conaistent (Ideology rather than strict legal theory has been paramount). In any event, the treaties (or at least tbe state of affairs tbey uoderpin) have been respected in practice by the Government of the People'a Republic for many years, aod the significance to China of 1997 can only imply some sort of recognition of the 1898 convention.

When Mrs Thatcher visited Peking last year and talked of the future of Hong Kong she insisted upon the validity of all three treaties.

By modern notions of international law her position was unassailable. It is true that the international community has now rejected the idea that treaties founded upon force are legally binding. Article 52 of the Vienna convention on the law of treaties states: "A treaty is void if its conclusion has been procured by the threat or use of force in violation of the principles of international law embodied in the charter of the United Nations." This applies, however, only to treaties entered *into after 1969*, the refusal of the signatories to make this provision retrospective clearly indicates that they did not accept that it previously represented customary international law.

"There is little doubt that both China and Britain are sincere in wishing to maintain Hong Kong's prosperity and stability, but policies seem nevertheless calculated to achieve the opposite."

Any other principle would be impossihle to apply to territorial concessions in any consistent fashion. How far back in history would it go? How much force or threat of force, or how much inequality, would entitle the weaker party to renounce the treaty? Imagine how the world map would have to be redrawn if unequal treaties of even just the last 100 years were to ha regarded as of no legal effect.

Nevertheless, China has maintained her claim that the treaties are invalid and that sovereignty over Hong Hong is rightfully hers. Mrs Thatcher made some foolish remarks about decent chaps bonorably sticking to their hargains, and the issue was joined—to the accompaniment of stock market plunges, currency and real estate collapses in Hong Kong.

The whole matter appears to have been most ioeptly handled, on both sides. There is little doubt that both China and Britain are aincere in wishing to maintain Hong Kong's prosperity and stability, but policies seem nevertheless calculated to achieve the opposite. Given China's ideological, political and historical opposition to western imperialism, o highly visihle trip to Peking by tbe British Prime Minister seeking to secure an extension of rights over territory wrenched from Chinese control in the 19th century could only have predictably nnfortunate results.

Mrs Thatcher went ahead anyway, apparently confident that firmness and forthrightness were required (qualities so successfully employed against the Argentines not long before) and that constitutional necessities demanded some kind of new agreement with China if Britain was to remain in the New Territories after 1997.

On both points she was wrong. To the Chinese, subtlety and sophistication are probably as essential a part of modern diplomacy as in the days of the non-communist mandarins, and the law does not require a new treaty on which to found a continued British administration on expiry of the lease: other, nnilaterally issued documents would suffice, or no documents at all.

If political circumstances warraoted such a coursa (that *is, if* China *secretly agreed* while being unabla to sign a new treaty), the United Kingdom could simply stay on in the New Territories, ignoring 1997 and declining to ratify her decision by formal means. The courts would not interfere with such an act of state power.

Cbina also seems, when the Brinsh came to Peking, to have been unprepared (ber traditional response, that the problem of Hong Kong would be solved when the time was ripe, perhaps permitted a rather leisurely approach to the formuiation of policy on the matter).

The Government of the People's Repuhlic could bave consistently proclaimed that the treaties had no effect in law, that they were not simply voidable but totally void. Thus 1997 would be of no moment. Sovereignty would not remain to be recovered *through* negotiation but would be regarded as never relinquished.

The prohlem of Hong Kong could still he designated a problem left ovar from history. Tbe anomaly of a British adminiatration in the territory would continue to be due for rectification when circumstances were favourahle. Thus China would bave demonstrated to the world that her sovereign status is unimpaired in Hong Kong.

But this was oot done. Instead, the impression created was that China must recover or regain sovereignty, as tbougb tha treaties had been legally effective in transfarring sovereignty over Hong Kong to Britain. Tbus there must be a shift in sovereignty back to China — which would be a rather unmomentous hiatorical event unless accompanied by major political cbanges.

The de facto status quo cannot in these circumstances continue unaffected. Yet how can negotiations be successfully concluded and the reversion of sovereignty be achieved without a cataclysmic upbeaval which necessarily jeopardiaes Hong Kong's economic success and social stability?

No one can be confident that interference by China witb government in Hong Kong will be to the territory's advantage, or that a new constitution whicb is designed to assert Chinese sovereignty will discourage Chinese officials from meddling in Hong Kong affairs after 1997.

Tbe latest atatement by a Chinese leader, this time by General Secretary Hn Yaobang, implied that the New Territories Treaty is without legal force but will nevertbeless guide China'a actions. "We will recover Hong Kong on July 1 1997. As far as China is concerned, our attitude is one of respect for history." That is, although the treaty is void, it might as well be regarded as velid, with the same consequence that administrative authority reverts to China.

"Hong Kong without a thriving economy is just not viable, yet the possibility of rendition to China gravely threatens prosperity."

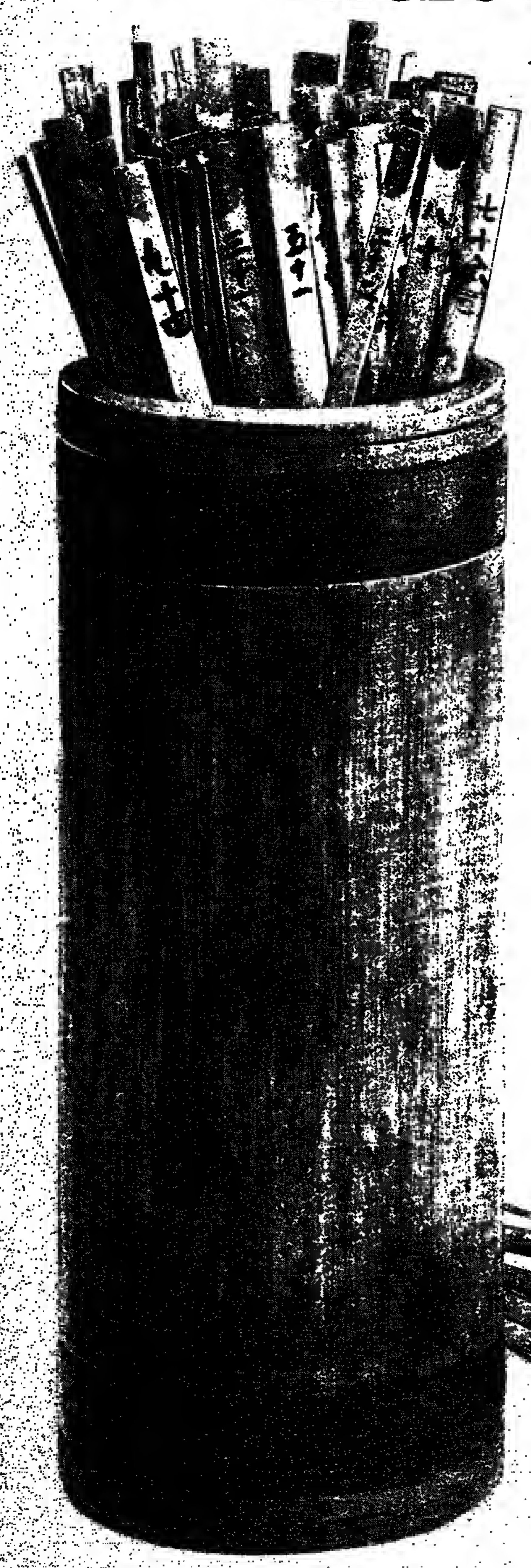
It is a curious position for a communist to take. Why sbould the Peopla'a Repuhlic have respect for a history of imperialist oppression of compatriots by capitalist overlords? Nevertheless, by putting forward a specific date for the termination of thot oppression Hu is condemning those compatriots to an uncertain and daogerous future. China proclaims her aovereignty, hut at what cost?

It is contanded, therefore, that from the perspectiva of legal theory and political strategy the issua of Hong Kong's future has so far been hadly mishandled. In human terms, wbo stands to gain from China'a recovery of authority over Hong Kong? Not the Chinese people or the Britisb people (except perbops in a vague psychological sense). Not the people of Hong Kong, about 40 per cent of whom emigrated — many Illegally — from China.

With few natural resourcea and vastly over-populated, Hong Kong without a thriving economy is just not vioble, yet the possihility of rendition to China grevely threatens prosperity. And for nothing but a handful of "isms," nationalistic and ideological demands which might satisfy notions of racial pride or moral rightness or historical revenge but have nothing to do with real buman wants.

It is widely assumed that China was offered Hong Kong in 1967 and Macoa in 1975 (when politics were ellegedly in command) and that she could take either place tomorrow without firing a shot. There are solid economic and human reosons why she is not now flying tha Chinese flag in either place and sbould not do so in the immediately foreseeoble future. Bnt ill-considered rhetoric and careless tactical manoeuvring hove created a situation which can benefit no one.

In Hong Kong, there are many ways to succeed.



Hong Kong is indisputably a world centre of finance commerce and communications. For all that, it can be a far cry from the usual business environment. But we can make it easier for you.

Hutchison has grown with Hong Kong, becoming one of its largest companies with assets in excess of US$965 million, a turnover of US$574 million and profits after tax in 1982 of US$154 million.

Hutchison is continuing to invest in the future of Hong Kong through its active involvement in key areas of Hong Kong's economy, such as property development; containerisation, warehousing and transport; general trading, China trade and quarrying — we're also one of Hong Kong's leading retailers.

Hutchison is ideally positioned to help you participate in Hong Kong's excellent future growth prospects. We are not suggesting that we can eliminate all the risks that go with involvement in Hong Kong's effervescent economy. We will however be able to help you correctly identify your opportunities and quickly resolve the inevitable problems. Without leaving anything to chance.

If you want to know more about us, simply send us a business card and we'll send you a copy of our Annual Report. Our track record speaks for itself.

In an age-old ritual, the cup of Chinese fortune sticks is gently shaken until one stick detaches itself from the rest. The message that it bears is a clue to future prospects.

HWL

Hutchison

HUTCHISON WHAMPOA LIMITED

22nd Floor, Hutchison House, Hong Kong.
Telephone: 5-230161. Telex: 73176 HILHK HX.

HONG KONG IV

Hong Kong is vigorously and publicly debating its future. Here are three local views

Autonomy: but only on Hong Kong's terms

THE RESPONSES of Hong Kong's 5.5m people, most of them Chinese, towards the question of their territory's future, fall into three broad categories:

- The great majority, who are resigned to China's much-publicised plan to turn this capitalistic enclave into "a special administrative region with a high degree of autonomy";
- Those who are convinced that Hong Kong's days as a bastion of free enterprise are numbered and are planning to emigrate;
- Those who can, but refuse, to go without making a stand towards the preservation of a unique social and economic system to which they have become accustomed.

Social critics

The Hong Kong Observers, a group of social critics numbering some 30 young businessmen and professionals, belong to the third category—a vocal minority. Nearly all of them are Western-educated and hold a strong belief in the principles of democracy. On the issue of Hong Kong's future then, the observers feel that it is morally wrong that the people of Hong Kong have themselves no say in determining who will govern the territory and under what system.

Angered by the British Government's lack of consideration for Hong Kong's particular problem of national identity in passing last year's Nationality Act and by China's vague reassurances to investors only to "put their hearts at ease," the observers spent HK$64,000 early in 1982 on an opinion poll to find out how the rest of the community felt about the future. The poll showed that the vast majority of the population wanted maintenance of the status quo.

The Observers themselves felt this was unrealistic as change was inevitable. They sought "autonomy within China" but were unclear about how this could be achieved. This statement has caused some controversy in Hong Kong and drawn criticism of "naivety" towards China's Communist leaders.

Unfortunately for the Observers, after their poll was published Peking proposed that Hong Kong should be governed by Hong Kong people as a special administrative region with a high degree of autonomy. There has been little opportunity for the group to explain that they want autonomy on terms determined by Hong Kong, not Peking.

Like most of Hong Kong people, the Observers too have little confidence in promises made by China's leaders who, after all, are a group of old men whose control over opponents of the modernisation policy is still far from consolidated.

However, the Observers would also like to see removed the colonial tag which dogs their birthplace. The dilemma facing the Hong Kong people is that they can neither dispute that this capitalistic enclave is Chinese territory nor afford to roll out the anti-colonialism bandwagon — for there is no viable substitute as yet for the administrative structure established under British rule.

Opinion

MARY LEE

The author is former Hong Kong correspondent of the Far Eastern Economic Review and a member of the Hong Kong Observers.

If independence were a real option, then contemplating the future would not be the agony it now is.

Adding to the agony are claims by both Peking and London to represent Hong Kong's interests, while there is no formal structure which enables the people of Hong Kong to negotiate what they want of the future with either of their masters.'

The British administration says that freedom of speech in Hong Kong allows all manner of views to be expressed and that it is fully aware of what the people want. According to Sir Edward Youde, the Governor, the people want an assurance of continuity of the lifestyle they enjoy. Accurate though his assessment may be, the absence of an authentic public stamp on this statement renders it useless as far as Peking is concerned.

Equally, Peking maintains that its propsal for "self-administration and minimal changes" (apart from the removal of the British Governor, flag and garrison) is a sincere attempt to calm local fears. Yet Peking has not even committed itself to taking the views of Hong Kong people into account, whereas British leaders have.

Lack of authority

All that Peking has done is to invite local delegations to meet Chinese leaders in the Great Hall of the People. Any views which members of these delegations express are still individual opinions which lack the authoritative stamp of representative public opinion and can thus be dismissed as such.

Peking will never agree to a referendum to determine what the people want, obviously because it will demonstrate the public's lack of confidence in its promises.

The Hong Kong Observers feel that the future of this territory is not a question of Chinese dignity. The most important issue is to find an administrative solution which will preserve and enhance the confidence of Hong Kong people. This position inevitably bears a great deal of similarity to the as yet unpublicised British stand. Thus the observers, and many middle-class Chinese, run the real risk of being tagged as "colonial running dogs" by Peking and its functionaries.

Not only is this tag unfair; but it is also insensitive to regard as "running dogs" individuals who are only trying to grapple with the inevitability of change and simultaneously trying to shape their hopes for a better society under a free sky without offending China's dignity.

As far as the Observers are concerned, what needs to be done now is for Britain and China to show that their declared aim of maintaining prosperity and stability is being actively pursued by stating that Hong Kong's interests will be preserved above all else.

However, as the group realistically admits, the task of maintaining prosperity and stability cannot be left to outsiders. An open democratic system of government should therefore be introduced *now* so that the local population can learn to assume social responsibility — and stop being an undisciplined community of cry-babies.

Need for buffer role

EVER SINCE Mrs Margaret Thatcher's visit to Peking in September 1982 the only topic invariably discussed by people everywhere in Hong Kong is "1997." The exact date is June 30 1997, when Britain's lease over the New Territories will expire under the provisions of the "convention between Great Britain and China respecting an extension of Hong Kong territory—signed at Peking, June 9, 1898." This was the last of three treaties signed between the two countries as a result of the Opium War, a war which no Englishman can be proud of winning. The People's Republic of China (PRC) has always taken the stance that these were unequal treaties and have no binding effect.

Mrs Thatcher's visit resulted in a joint communique issued on September 24 1982 stating that the two governments concerned have "agreed to enter into talks through diplomatic channels with the common aim of maintaining the stability and prosperity of Hong Kong." Since then the people of Hong Kong have been keeping a close watch on the talks, which will resume on September 22 1983, hoping not so much that the solution arrived at will indeed preserve Hong Kong's prosperity (for not everyone in Hong Kong is prosperous) but that it will ensure the preservation of the many freedoms enjoyed by all the people of Hong Kong.

Quite recently Mr Hu Yaobang, General Secretary of the Chinese Communist Party, has stated that China plans to recover sovereignty over Hong Kong on July 1 1997 and that China has a "complete set of policies" to maintain Hong Kong's prosperity. The people of Hong Kong are not given any of the details of these policies but from Press reports it appears that they include the following:

As from July 1 1997 the people of Hong Kong will govern themselves and that there will be only minimal changes in the present administration and legal system, so much so that the capitalist system will continue to exist in Hong Kong even though the rest of China adopts a Communist system. The PRC has already amended its constitution by introducing a new clause, Article 31, which would enable this to be done by turning Hong Kong into a special administrative zone.

To some English people living more than 8,000 miles away, it may be difficult for them to see why so many people in Hong Kong are so very much worried about 1997 for they think:

- Geographically Hong Kong is on the southern tip of China and is part of the land mass of China;
- Racially the people of Hong Kong are overwhelmingly Chinese;
- Historically the cession of Hong Kong and Kowloon and the lease of the New Territories were made in such circumstances as would bring neither honour nor glory to the two countries concerned;
- The recent suggestion allowing the people of Hong Kong to govern themselves after 1997 appears to be eminently generous and democratic on the part of the PRC Government;
- In any event those people in Hong Kong who do not like it can leave.

Such, alas, is a misinformed view.

First, although it is true that Hong Kong is at the southernmost part of the Chinese land mass, it is different from China in many important respects.

Apart from the fundamental difference in political systems, the life styles of the two peoples are also poles apart. Hong Kong has become what it is today only because it has a different administration. Indeed, for the past 100 years Hong Kong has had the best of both worlds.

Opinion

MARTIN LEE AND STEPHEN CHEONG

Martin C. M. Lee, QC, is a barrister and immediate past-chairman of the Hong Kong Bar Association. Stephen K. C. Cheong is a member of Hong Kong's Legislative Council.

On the one hand it has been able to avoid the excesses of a welfare state and trade unionism because of its physical distance from the UK and its affinity to China geographically, racially and culturally. On the other, its British administration has shielded it from the many political upheavals in China, a result which could not possibly have been achieved by an "independent" Hong Kong administration.

Consequently, the fact that Hong Kong is on the southern tip of China and part of the Chinese land mass makes it all the more desirable for it to have a buffer in the form of a British administration, which has proved to be immensely successful.

Secondly, although over 90 per cent of the people of Hong Kong are Chinese, the majority can be regarded as political refugees from China or descendants of them. The population of Hong Kong *immediately after* World War II was less than ½m. It is now over 5m.

It is a truism that political refugees are generally of the same race and nationality as the people forming the Government from which they have escaped. Thus Hong Kong's refugees from China are Chinese.

But it *is important* to remember that these refugees have braved considerable hardships and danger to seek refuge in a British-administered territory. For these people, to put Hong Kong under a PRC administration is tantamount to sending them back to China.

Thirdly, although Hong Kong has been called "an accident of history" (the accident being the Opium War), both Britain and China have throughout behaved completely reasonably and responsibly to each other as well as to the people of Hong Kong. On the one hand Britain has administered Hong Kong benignly and efficiently, while on the other, China, and particularly the PRC, has given continuous succour to Hong Kong—for example in the supply of food and water—and has chosen to operate within the legal and constitutional framework of Hong Kong.

Fourthly, although it is true that the PRC has changed its constitution to enable Hong Kong to have a capitalist system after China has regained sovereignty, whether this novel idea can work in practice is questionable, to say the least, because:—

- *Socialism and capitalism are fundamentally incompatible;*
- There is no known precedent where a dependent territory of a Communist country has practised capitalism in isolation and yet managed to be prosperous.

Furthermore, without the buffer element referred to above, many people in Hong Kong doubt if such a state of affairs can last long, as they fear that there will be intervention by the PRC in the administration of Hong Kong.

Fifthly, although it is true that some rich people in Hong Kong can make their home elsewhere, they form only a very small minority. Most people in Hong Kong are not in a position to emigrate elsewhere because of insufficient means or ineligibility to obtain immigrant visas to countries of their choice like the UK, U.S., Canada or Australia. But whether rich or poor, all the people of Hong Kong cherish the many freedoms that they have grown accustomed to: freedom of speech, freedom of religion, freedom of movement, freedom of employment and equality before the law. Many have risked their lives for them.

Although the leaders of the PRC have given repeated assurances that the people of Hong Kong will continue to have these freedoms even after China has recovered sovereignty, the people of Hong Kong fear that the present political philosophy of those ruling China may change.

Immediately after Mrs Thatcher's visit to Peking she came to Hong Kong and reassured us that there is a moral commitment to Hong Kong on her part as well as her government. As for China, we have been assured by its leaders that they will not say or do anything which will adversely affect the welfare of Hong Kong. We are therefore confident that when the talks resume the two governments will find a solution which not only preserves the stability and prosperity of Hong Kong but also the many freedoms which we have hitherto enjoyed and cherished.

Uncertainty weakens the HK dollar

THERE CAN scarcely be a more telling indicator of the impact on financial confidence of Hong Kong's uncertain political future than the fate of its local currency. From a level of about HK$6.10 to the U.S. dollar when Mrs Thatcher visited China last November it has slipped progressively to stand at about HK$7.45 by late August.

The drop has not just been against the U.S. currency. The Hong Kong dollar has also plumbed successive lows on a trade-weighted basis despite increases in local interest rates. Best lending rate was raised by two percentage points to 13½ per cent in mid-May, but this was only a temporary palliative on the fall.

As far as the Hong Kong Government is concerned this movement flies in the face of economic reality. The Governor, Sir Edward Youde, has repeatedly warned people not to be "too gloomy" about Hong Kong's future and the value of its currency.

There are, government officials say, some perfectly valid arguments why the dollar has been weak and why it should strengthen later in the year. In particular Hong Kong's manufacturing industry is in the early stages of a major recovery. It has been buying in imported components and raw materials as order books have lengthened, but the impact of the export upsurge on cash flow has yet to be felt.

Once export receipts are flowing in, which should be soon, the Hong Kong dollar should strengthen as exporters repatriate their earnings to cover their local debts.

Exaggerated

Besides, the dollar's weakness has recently been exaggerated by the extreme strength of the U.S. currency. The exchange market fears the Federal Reserve will move to tighten monetary policy in the wake of explosive growth in the M1 money supply. Once the American currency peaks, however, the Hong Kong dollar could recover in line with other currencies.

Underlying the official bravado, however, is a more deep-seated pessimism. Senior bankers admit privately that the main reason for the dollar's weakness is the problem of political uncertainty. Few people want to hold Hong Kong dollars — growth of local currency deposits in the banking system has virtually stopped—and even the rapid rise in interest rates since April has not been sufficient to force those who had gone short of the local currency to balance their positions.

This has put the Government in a bind. The weaker Hong Kong dollar is bound to be inflationary as Hong Kong imports almost all its food. The Government's target of 9 per cent inflation this year already looks far too optimistic.

This could set off a vicious circle of depreciation and inflation, forcing interest rates much higher and undermining the recovery as well as making the property slump worse.

At its most pernicious this scenario could lead to social unrest as the economy is crippled by a combination of a weak currency, high interest rates and rising inflation, some bankers argue.

Apart from orchestrating a rise in interest rates the Government has done relatively little to counter the local unit's weakness. Intervention in the exchange markets has been *minimal* (although foreign exchange reserves are believed to be well in excess of HK$ 30bn). Nor has the Government moved to correct one major tax anomaly that is promoting weakness of the Hong Kong currency.

This has been singled out by Mr Jiang Wengui, Hong Kong manager of the Bank of China, *as a key aspect of the currency's* decline. It is the tax legislation imposing a 10 per cent withholding tax on Hong Kong dollar deposits, while foreign currency deposits are free of withholding tax.

In his budget speech, Mr John Bremridge, the Territory's Financial Secretary, argued against the lifting of the withholding tax on domestic currency deposits on the grounds that the loss of revenue would be too great. He estimated it at HK$620m in 1983-84 alone.

Indirect effect

It now seems unlikely that abolishing the tax would lead to such a large direct loss of revenue, but the Government is also worried that the lifting of the withholding tax would have an indirect effect on other tax receipts (for example through corporations using intra company loans to reduce their profits tax liability).

Besides, the state of the foreign exchange market in recent months has been so volatile that even a lifting of the withholding tax might have little effect either on the level of the currency or on the volume of HK dollar deposits in the local banking system.

Were the tax to be lifted and the currency continue weak the Government could no longer hide behind this technical argument as a reason for the Hong Kong dollar's fall. The loss of confidence in the HK dollar would be all the more exposed as the direct result of political uncertainty over the Territory's future.

Against this background it is all the more ironic that hints from the Government of future external borrowings to cover the budget deficit have aroused such excitement in the local banking community. No final decision to go ahead with such borrowing has yet been made, but foreign bankers in Hong Kong are already looking *forward to the possibility of a* Hong Kong Government Eurocredit next year.

Given the rarity of the name and the number of foreign banks in Hong Kong, such a credit, provided it was of relatively short maturity, could prove immensely popular. But it would be a different matter if Hong Kong, in the midst of this political uncertainty, tried to tap the international bond markets. As one senior banker put it: "You couldn't sell Hong Kong to a dentist in Bruges."

Peter Montagnon

Sovereignty and government

The following appeared as a commentary in the August 11 1983 issue of the English language weekly edition of Ta Kung Pao.

ON THE SUBJECT of Hong Kong, there has been talk about the separation of sovereignty and government, as if it was possible that, when China recovers its sovereignty over Hong Kong, the Government here could be left in the hands of a government which is appointed by and pledges allegiance to another sovereign. This is utterly impossible.

In Europe, it was at a time when nationalism began to prevail over feudalism that the concept of sovereignty was first used to bolster the power of the king in 16th century France over the rebellious feudal lords. *It was thus that the sovereign* of France of that time was able to finally exercise his authority over the whole of his country. In ancient China the absolute rule of a sovereign appeared much earlier in the person of Qinshihuang in the late third century BC.

In 17th and 18th century Europe, when absolute monarchies were cut down to size or swept away by democratic constitutions, sovereignty began to be vested in the nation or the people. The French constitution of 1791 had the following to *say* on the question of sovereignty:

"Sovereignty is one, indivisible, unalienable and imprescribable: it belongs to the nation: no group can attribute sovereignty to itself nor can an individual arrogate it to himself."

Since it is really impossible for the people as a whole to exercise the sovereignty vested in them, the natural result is that the parliament or congress which represents the people now exercises the sovereignty in the *name of the people.* Here one must note that it is also these elected bodies which elect or approve the Government. Thus government is always closely linked with sovereignty and hardly separable.

The Chinese Constitution

In the preamble of China's constitution, it is stated that "China adheres to . . . the five principles of mutual respect for sovereignty and territorial integrity . . ."

And sovereignty is vested in the National People's Congress, as stipulated in the following articles of the constitution: "Article 57 — the National People's Congress of the People's Republic of China is the highest organ of state power. Its permanent body is the standing committee of the National People's Congress.

Opinion

TA KUNG PAO

(Ta Kung Pao is a left-wing Hong Kong newspaper generally considered to offer an authoritative reflection of political thinking in Peking.)

Article 58 — the National People's Congress and its standing committee exercise the legislative power of the state."

The National People's Congress is also responsible for the institution of the People's Government. It elects:

- The President and the vice-President of the People's Republic of China.
- The Chairman of the Central Military Commission (and to decide on the choice of the other members of the Central Military Commission.)
- The President of the Supreme People's Court and the Procurator-General of the Supreme People's Procuratorate. And, most importantly, the National People's Congress is also to decide on the choice of the members of the State Council—the government including the premier, vice-premiers and the ministers.

Here again one sees the close organic relationship between sovereignty exercised and the Government instituted by the National People's Congress. To separate the two is unthinkable.

Special Administrative Regions

However, a supreme organ of power may not be the sole repository of sovereignty of supreme power. The United States, being a union of states, practises a *form* of dual sovereignty of both the union and the component units which retain certain legislative powers. In spite of this, it is unthinkable that any state would, while acknowledging the sovereignty vested in Washington, form a government which pledges allegiance to another sovereignty country. In the Chinese constitution there are similar instances. National autonomous regions not only decide upon their own regional governments, but are allowed legislative powers within specific realms. But the concept of special administrative regions which may apply to Taiwan and Hong Kong, as stipulated in Article 31 of the constitution, goes much *further than all* this.

To be able to achieve such a rule in Hong Kong, it means that much in the Chinese constitution will not apply. Looking from one angle, one may find this a restriction on the sovereignty vested in the National People's Congress. Looking from another angle, however, one may say this represents an offer to Hong Kong to share sovereignty with the rest of the country by giving it its own legislative power to retain the law in operation in Hong Kong and to make amendments on them whenever necessary.

Whatever they may do with this power, there will be no interference from Beijing. Under such circumstances, it is obvious that no non-Chinese government will be acceptable. This makes all the more important that the future government of Hong Kong be one led by Chinese patriots resident in Hong Kong. And to be a patriot, one will only have to support the reunification of Hong Kong with the mainland. In one version reported recently, the future head of the government need not be a leftist or an advocate of socialism. This is natural, for he will have to preside over a *capitalist free port* and financial centre.

Above (left to right): Sir Edward Youde, Governor; two "officials": Sir Philip Haddon Cave, Chief Secretary; Sir John Bremridge, Financial Secretary. Below (left to right): three "unofficials": Mr Michael Sandberg; Sir S. Y. Chung; Ms Lydia Dunn.

Governing by consent

EACH Tuesday, in a room in the government secretariat offices in Central district, a group of 14 men and one woman gathers under the presidency of the Governor of Hong Kong, Sir Edward Youde. Tba meeting will last most, if not all, of the morning.

There are perhaps 15 or 20 issuea on the agenda for discussion. The meeting will be minuted, but those minutes wul not be available to the public for at least 30 years. Each member of the group has taken an oath not to reveal to any outside party the substance of this, or any past or future meeting. The gathering is that of the Governor's executive council, which in the making of public policy runs Hong Kong much as it has done for the past 140 years.

To the outsider, the matters on Exco's agenda might appear to range from the trivial to the momentous. (The most important of all the issnes now confronting Hong Kong—its long-term political future—has this year become the subject of a separate weekly Exco meeting on Wednesday morning.)

The Tuesday agenda may include the review of some proposed new legislation in draft form — which Exco may approve, or query and refer for re-drafting. The council may be asked to consider a grant of land, or a request from a franchised public transport operator to raise fares.

If a murderer bas recently been sentenced to death in a Hong Kong court, the Governor will follow British guidance to commute the sentence, and Exco will advise on the criminal's fate.

Three new appointments to the executive council are Miss Maria Tam, a barrister, Mr S. L. Chen, a local Mr S. L. Chen, a local businessman and Mr Q. W. Lee chairman of the Hang Seng Bank. Mr Lee has previously served on Exco, bnt retired in 1978 for health reasons. Appointments also made to the legislative council announced that the Secretary of Home Affairs would cease to be an ex-officio member of Exco, but that Mr Denis Bray, the present secretary, would *remain* on the council in a personal capacity.

At one memorable special evening meeting Exco in 1974, the decision was taken to allow the Hong Kong dollar to float freely on world exchanges, Exco members refreshed themselves with a glass of whisky.

Regular meetings are punctuated by rounds of coffee. Proceedings are relatively formal—more so under Sir Edward Youde than under bis predecessor, Sir Murray (now Lord) Maclebose.

Some caocusing may bave preceded the meeting if a particularly contentious issue is to be discussed, but at least some of tbe agenda items are likely to yield prolonged and forceful argumeot.

Members of Exco may see important points of prlociple lurking in relatively trivial practicalities. As discussion of each issue draws to a close, the Governor will not seek a formal vote, but will assure himself that he has accurately sensed the feeling of the meeting. A member who wishes formally to note a dissent may do so and bave it minuted.

Exco is a microcosm of how Hong Kong's non-elected administration seeks to govern by conseot. The Governor of Hoog Kong is endowed by the British sovereign with powers which would be the delight of a dictorial potentate.

His immediate deputy, the Chief Secretary, beads a civil service which constitutes a machinery of government never accountable to an electorate through the ballot box. Yet Governors bave not sought—and convention makes it inconceivable that any future Governor would seek—to exercise those powers to their full exteot. Instead, the Governor submits policy-making to the advice of his executive council, and enactment of law to the approval of bis legislative council.

In theory, he could over-rule these advisory bodies. In practice, he does not. (If be did want to act against Exco's wishes, be would also have to explain bis reasons to the British Foreign Secretary.) It is for the Governor to say who he is willing to listen to but, once selected, those advisers receive a decisive degree of influence.

The structure of Governor-Exco-Legco is by no means special to Hong Kong, but represents the classic mode of British colonial administration. In other colonies, however, the path bas been from appointed to elected assemblies and to eventual independence.

The particular circumstances of Hong Kong place such a progress out of the question. It is for the Governor and his subordinates to seek, as best they can, to simulate within a non-elected administration the stimuli and the responses of an elected one.

The executive council, as it is at present constituted, comprises five ex-officio members wbose standing derives from their seniority in government, together with a sixth official nominated by the Governor.

In addition, the council bas nine "unofficial" members drawn from the private sector—currently two bankers, two lawyers, four businessmen and a surgeon. The unofficials discharge an active role in policy making, and a passive role in standing as a proxy for the community, telling the Governor and his officials what Houg Kong will or will not atand for.

The 50-member legislative council, wbose 23 official and 27 unofficial members publicly discuss and approve new legislation, is a tamer affair. Most Exco unofficials also sit on Legco, and ao can gauga in advance issues which might arouse opposition in Legco, and amend propositions accordingly at their conceptual stage. Legco may seek amendment of a bill, but voting divisions are rare.

More important in practical terms is the finance committee, made up of Legco's unofficial members, which meets in private after Legco's fortnightly public meeting. The finance committee reviews new pubbc expenditure, in which it may propose cuts but no increases. Its existence is a guarantee that governmental spending programmes will be subject to non-governmental scrutiny.

There are other formal channels through which public opinion, directly or indirectly, may be brought to bear on government, including democracy at a very local level. Tbe "urbao council" is Hong Kong's equivalent of a town council, with a part-elected, part-appointed unofficial membership, and funding from local rates.

While its brief is to promote cultural and recreational services, its members also operate "surgeries" for their local ward constituents, listening to problems and taking up grievances. Some members show little interest in their hard-work. Others, notably Mrs Elsie Elliott, are dedicated and skilful campaigners wbose voices ring loud through the corridors of government.

A similar "surgery" function to mediate between public and government is operated by UMELCO, the support office for the unofficial members of executive and legislative councils.

Finally, at the most localised "grass-roots" level, are the Government's own district officers, and the part-elected part-appointed district boards. The district officers are the Government's ears among the general public, assessing public opinion and reporting it back to the government secretariat.

Sucb local contact bas in recent months been adduced to *support the Government's claim* that, even though it has no formal method of polling Hong Kong people on what sort of future they want, it none the less has an accurate grasp of their sentiments.

Government officials are quick to argue that their job is made more difficult, not more easy, by the absence of accountability to an electorate. Unless a non-elected Government remains acutely sensltive to public feeling, the absence of democracy means that popular dissatisfaction may slmmer unnoticed and then explode.

Robert Cottrell

A mark of power and prestige

TO BECOME an "unofficial" is a mark of power and prestige — bnt one which must be paid for with hard work. An unofficial sitting on both Exco and Legco will have two mornings a week and one afternoon a fortnight occupled with meetings of those two councils. But be or she will also be drawn into membership of many of the 320 quasi-governmental committees which atudy, advise, or discharge a public dnty not easily allocated within government itself.

There are or have been committees for pharmacy and poisons, for radiation, for metrication and for keeping an eye on pressure groups, for civil service salaries, for land prodnction, for temple upkeep and for trust funds, for diversification of the economy, and for fightlng corruption, for ports and airports, for traffic accidents and for ferry fares.

In a category of its own is tbe Heung Yee Kuk, a committee of representatives of rural communities in the New Territories, which proudly guards its claim to represent the farming families who settled the district before the eoming of the British. The Heung Yee Kuk takes a particular interest in government land, policy where it may affect New Territories landholders, negotiating the highest possible rates for land resumed by the government.

In 1977, it unsuccessfully sought, the right for Kuk leaders to deal direct with Whitehall, by-passing the Hong Kong administration entirely.

Who are the unofficials?

ADHERENTS TO the old adage that Hong Kong is in fact run by the bank, the Jockey Club, Jardine Matbeson and the Governor will find some support for their views in the composition of the executive council.

Its unofficials include Mr David Newbigging, chairman of Jardine Matheson (though bis predecessor, Mr Henry Keswick, was not an Exco member): and Mr Michael Sandberg, chairman of the Hoogkoog and Sbanghai Banking Corporation.

Mr Sandberg and Mr Newbigging are both Jockey Club stewards too—an honour which they share with two more Exco unofficials, Mr Oswald Cbeung and Mr Li Fook-Wo.

Mr Newbigging is, for good measure, a director of Mr Sandberg's bank—as is Exco's newest unofficial, Miss Lydia Dunn. Miss Dunn is also one of two unofficials to sit on the board of the trading and airline group Swire Pacific—the other being Mr Lo Tak-Shing.

Swire, uniquely, also sports an alumnus who crossed the divide from unofficial to ex-officio membership of Exco—Sir John Bremridge, now Financial Secretary, formerly Swire Pacific chairman.

Peter Montagnon sets the regional banking scene

Asian loan market stays buoyant

"TWO and a half years ago," Mr Alan Bowbyes, chief executive of Orion Royal Pacific says, "the real challenge was winning the mandate. The rest of the transaction took care of itself."

Now in the wake of the Latin American debt crisis, the mood has changed. Even in Asia international syndicated loans have become harder to put together. The work really begins once the loan terms are settled and lead managers have to start the arduous task of finding participants from a diminishing number of smaller banks.

Yet Asia remains one of the few relatively buoyant areas left in the world for international bank lending. Most regional lending is carried on through the offices of major money-centre banks located in Hong Kong. Last year many regional borrowers increased their offtake of syndicated loans.

Figures compiled by Morgan Guaranty has forecast a debt South Korea borrowed US$2.9bn compared with US$2.8bn in 1981. Borrowing by Malaysia rose to $1.9bn from $1.7bn and by Indonesia to $1.04bn from $725m.

This year also got off to a good start. In the first three months Korea raised $895m, Malaysia $560m and Indonesia $1.05bn. By and large international banks operating in the Far East are also happy with the quality of the loans on their books.

How did the Asian loan market manage to resist the ripple effect of the Latin American debt crisis which has seen most other lending to developing countries virtually dry up?

Part of the answer lies in the relatively good economic growth record of the Asian region. Many Asian countries are also underborrowed by comparison with Latin America. Their debt service ratios (interest and principal repayments as a percentage of export proceeds) are much lower.

For example, Morgan Gauranty has forecast a debt service ratio of only 49 per cent for South Korea this year. South Korea is the region's largest borrower with total debt at the end of 1982 of $36bn.

By comparison many Latin American countries face a debt service ratio of more than 100 per cent with Argentina's projected ratio a staggering 154 per cent.

Major factor

A second major factor helping the loan market in the Far East has been the wide diversity of borrowers and their economies. For many international banks the Far East region that is handled out of Hong Kong stretches as far north as Korea and south as far as Australia and from Taiwan in the east to India in the west.

It includes a wide range of countries that simply cannot be lumped together in one basket as in Latin America. Bankers in Hong Kong believe that there is far less risk of an Asian ripple effect whereby debt problems for one borrower would lead to a succession of defaults by others as credit dried up.

This is not to say that Asia is without its problem cases. The Philippines with total debts of $16.6bn has been carefully watched for some time now and late last year was widely regarded as a possible candidate for rescheduling. It has found new borrowing from international banks particularly difficult.

A large loan of $300m was arranged at the end of 1982 and more recently the Philippines Development Bank brought a $100m loan to the market with rather high margins of 1½ per cent over London eurodollar rates or ¾ per cent over U.S. prime.

These loans bave basically been "club" deals arranged by banks with a close relationship to the country as there is little appetite among smaller market participants for Philippine borrowings.

By late August the Philippines had, however, raised about $1.8bn in foreign finance, close to the $2bn needed for all of 1983. Bankers agree that an $834m emergency programme from the IMF and World Bank had belped maintain tbe country's fragile credit rating, but new uncertainties arose with the assassination of opposition leader Benigno Aquino. At tha very least the strong financial team of Prime Minister Cesar Virata and Central Bank Governor Jaime Laya must be kept in place to re-assure creditors, bankers say.

If the Philippines did seek a rescheduling banks might start to look more closely at the risks involved in South Korea, which like tbe Philippines has a larga amount of short-term debt. Tbe other potential problem borrower in the region, Indonesia with debts of $25.4bn, bas less short-term debt. But faced with a large $6.5bn current account deficit this year it bas begun to cut back heavily on new projects.

Attractive

Among other borrowers Anstralia remains particularly attractive despite the election of a new Labour Government earlier this year, and Thailand which recently syndicated a $200m loan at a margin of only ⅜ per cent is highly regarded by tha banking commnnity partly because it has become a very rare name.

Taiwan is also able to obtain funds on exceptionally low margins, usually ⅜ per cent over the London Inter Bank Offered Rate (Libor) because banks have to build np their loans to Taiwan in order to obtain authorisation to open a branch in Taipei.

Malaysia is also a relatively popular borrower, although its large programme over the past few years means it has lost some of its rarity value.

In general, most bankers are reasonably optimistic for syndicated loan business in the Far East, though most agree that the days of strong competition for mandates have been left far behind.

As little as a year ago, banks would pitch in with low bids for some loans, largely in an effort to buy market share. Now when a large loan is in the offing, there is more consulation among individual banks in Hong Kong in an effort to hit a really viable price.

Syndication has also become moch barder because of the diminishing interest of Japanese banks in international loan business.

Margins on loans to Asian borrowers bave in fact been rising perceptibly, with one of the bigger jumps recorded by *South Korea. The $300m loan* recently launched by its Exim-bank bears interest at a split margin of ⅞-1 points over Libor or 0.25 points over U.S. prime rates. This compares with the previous margins of ⅝ per cent and 0.20 per cent respectively.

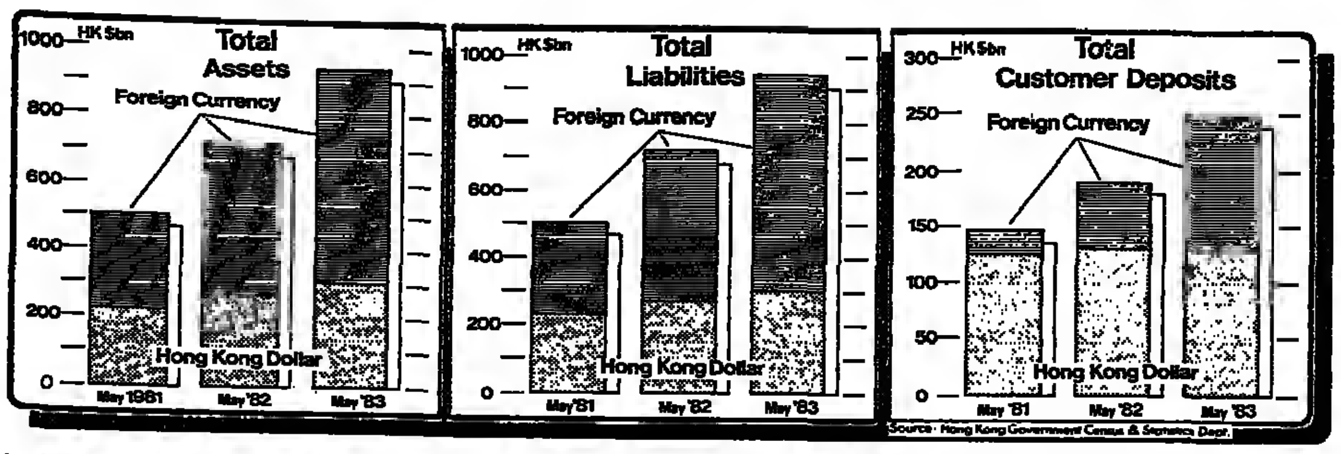
In the short term, bowever, these higher margins will not be enough to offset an expected decline in loan volume this year. Business in the second half is expected to slacken off as may major borrowers rushed to cover their needs in the early part of the year in expectation of bigher margins later in 1983.

Moreover some banks are also *forecasting a reduction in fee* income this year, although expectations are mixed in this respect.

DOMESTIC BANKING

Peter Montagnon

Hit by property market collapse



LAST YEAR'S collapse of the property market in Hong Kong came as a particular blow to the territory's banking community which has always been a heavy lender to the real estate sector.

Government figures show that at the end of last year lending by banks and deposit-taking companies to the construction industry and for residential mortgages totalled HK$66.4bn. This was more than a third of total loans and advances of HK$187.3bn in Hong Kong.

Moreover these figures provide only a minimum estimate of the total property exposure of the banking system in Hong Kong. Much other lending, for example to the manufacturing industry, is also property-related as borrowers use their credit to climb aboard the property bandwagon rather than develop their primary business.

Now a significant portion of this lending has turned sour. Carrian, the diversified property group which by last November had succeeded in borrowing U.S.$1bn from its bankers, is now engaged in a desperate struggle to stave off liquidation by selling off assets and negotiating with lenders to restructure outstanding loans. Another property group, EDA, is already in liquidation. Losses are looming for the banks on existing portfolios and a dramatic slowdown in new construction activity has meant a dearth of good new credit opportunities. Bankers are courting with more than usual keenness several industrial companies now seeking stock market quotations, in the hope of generating new non-property-based clients.

How did this situation arise, and how will it affect bank profits?

Senior bankers in Hong Kong have identified two principal causes for the boom-bust cycle in property lending—an excessive build up of liquidity during the boom period and reckless competition in the loan market generated by the huge influx of foreign banks into Hong Kong.

Mr William Purves, executive director of the Hongkong and Shanghai Banking Corporation, says: "There was a time when liquidity was running away here. It was too easy for some of the new people (foreign banks) who didn't have a solid deposit base to raise liquidity in the interbank market."

Mr Michael Brown, senior manager for Hong Kong of the Chartered Bank, adds: "All these foreign banks who came to Hong Kong found themselves in a very high cost environment. It was easy for them to put on their books (property) assets which appeared to have a sound underlying value."

Fingers burnt

As a result, competition to lend against property was intense, credit was easy to raise and margins on such business dwindled almost to nothing. When the property slump came it emerged that foreign banks featured prominently among those that had their fingers burnt.

For example, a list of Eda's Investments' bank creditors at the end of last November shows the largest single lender to be Bumiputra Malaysia Finance with a total exposure of HK$246m.

The exposure of Barclays Bank of Britian was HK$107m, but another feature of the list is the heavy exposure of the Hongkong and Shanghai Bank group, largely through its merchant banking subsidiary Wardley with exposure of HK$185m. Peking-owned Chinese banks were also deeply involved. The Chinese-owned Bank of Communications had an exposure of HK$193m.

In the short run the profitability of banks with such property exposure is bound to be affected by the need to make provisions and write-offs. The notoriously opaque bank accounting standards in the territory make it impossible, however, to tell how badly individual institutions are affected.

As the property slump continues it will also take some time—possibly three or four years—for the banks themselves to discover the full extent of their losses.

Some indications of the trend can be seen in the 1982 results for the Hongkong and Shanghai Bank itself. It reported only a modest 11 per cent increase in group profits to HK$2.36bn.

Part of the increase came from a return to profit by Antony Gibbs its British merchant banking subsidiary and it is widely assumed in Hong Kong that Wardley would have declared a loss for 1982 had it not transferred part of its loan book to its parent bank.

For the longer run banks now face a rather difficult task of building up profitable new business in non-property related sectors. There are some high quality credit risks in Hong Kong such as the utility companies, but these are being actively courted by the banking community and lending margins are falling.

Recovery in the property market itself is likely to be slow because of the continuing political uncertainty over the territory's future, so many banks are placing high stakes on lending to the manufacturing sector as order books rise with the world economic recovery.

Here the foreign banks, most of which are restricted to one single branch, find themselves at a distinct disadvantage. It is much harder for them to seek out clients among the smaller, soundly run manufacturing businesses.

If they are successful in doing so their profit margins are in any case slim because they have to fund their lending in the interbank market. Locally incorporated banks with a branch network can reap much higher returns.

The difference between savings deposit rates and best lending rate in mid-May was six per cent. Interbank deposit rates were much closer to the best lending rate level of 11.5 per cent.

By mid-August three-month interbank money rates stood only fractionally below the 8.5 per cent bank deposit rate, while best lending again stood at 11.5 per cent.

Local banks

Indeed locally incorporated banks which tended to resist the property bandwagon seem to have come out of the crisis much better than some of their larger multinational brethren.

The fact remains that branch banking in Hong Kong is a very expensive business, largely because of rental overheads. This eats into margins, and new automated teller machines which have been actively pushed by the Hongkong and Shanghai Bank have not necessarily proved as helpful as elsewhere.

Says Mr Michael Sandberg, chairman, "We almost got hoist by our own petard. The machines are very expensive. They do help to reduce labour costs but they are not as cheap to run as you might imagine because some machines have become so popular they run out of money."

Another, more serious problem facing the banking community is that Hong Kong dollar deposits have barely increased even in nominal terms over the past year while deposits in foreign currency have been growing rapidly.

The main reason for this lies in the Territory's taxation system. Foreign currency deposits are free of withholding tax whereas a 10 per cent interest tax is applied to local currency deposits.

Yet because of the weakness of the Hong Kong dollar many domestic customers prefer to have loans in local currency. Because of this the banking system is now lending more Hong Kong dollars than it has in local currency liabilities.

Loss of confidence in the territory's political future has forced the banking system to take the strain in more areas than just the property market alone. There is little sign that this strain will ease in the foreseeable future.

REGULATION

Robert Cottrell/Peter Montagnon

Strict curbs on deposit-taking companies

"IF YOU compare it with the secondary banking crisis in London, it is more like a child's picnic," says Mr Michael Sandberg, chairman of the Hongkong Bank.

But strains in Hong Kong's financial system since the collapse of the local property market have been one of the major talking points among local bankers over the last year and few would emulate Mr Sandberg in downplaying the significance of the problems. Particularly badly affected have been Hong Kong's deposit-taking companies (DTCs), which have been at the sharp end of a recently completed two-year restructuring of the banking system.

Troubles in the DTC sector began last November when Dollar Credit, a well-known local DTC, collapsed, leaving losses estimated at HK$650m. As a result many banks reined in their lending to DTCs via the Hong Kong money markets, causing knock-on delinquencies. Six other DTCs were to close in coming months, with the Hongkong Bank drawn at one stage to offer a lifeboat to respectable DTCs suffering temporary liquidity problems from the interbank credit squeeze.

In the end the Hongkong Bank lifeboat was barely used but the affair left a nasty aftertaste with the banking community and prompted criticism of the effectiveness of banking supervision in Hong Kong—supervision described by one leading banker as "woefully inadequate."

Sounder footing

More recently, the affairs of Hong Kong's 350 deposit-takers have been put on a sounder footing with the completion of the two-year restructuring programme at the end of June. The outcome of the restructuring has been the creation of a three-tier system of credit institutions. At the top stand the licensed banks operating across the whole of the deposit-taking spectrum, retail and wholesale, long- and short-term. Next come licensed DTCs, restricted to deposits of over HK$500,000, but for any term. At the bottom are registered DTCs, able to take deposits from the public only of at least HK$50,000 for terms of at least three months. Previously, registered DTCs could also take short-term deposits.

The intention of the restructuring is to deny registered DTCs—which range from the highly respectable to the fly-by-night — access to short-term public deposits, with the authorities arguing that such deposits are most safely concentrated in the hands of licensed banks. The effect on registered DTCs is to render them almost wholly dependent on funding from the interbank market, or where available a parent bank.

Most DTCs — registered or licensed—are subsidiaries of local or foreign banks and have a line of interbank funding by virtue of their parentage. But the outlook for registered DTCs now lacking a parent bank is at best uncertain. Perhaps reflecting the dampening of business prospects, eight registered DTCs chose to go out of business at end-June rather than meet the statutory requirement of doubling their share capital to HK$10m which formed part of the restructuring.

Hong Kong's Banking Commissioner, Mr Colin Martin, has also been interviewing in recent weeks heads of registered DTCs to ascertain how they see their business prospects. There can be little doubt that Hong Kong would be happy to see some of the less active non-bank-owned DTCs deciding to turn in their registrations.

The winter-long crisis in the DTC sector has produced some embarrassments among Hong Kong regulators—not least the rumour that Dollar Credit was just about to be granted permission to upgrade status from registered to licensed DTC when its finances collapsed and its owner, Mr Willie Yu, absconded to Taiwan. Hong Kong's hothouse atmosphere, say the critics, has been allowed to breed some exotic specimens on the fringes of the banking sector.

Mr Martin believes that at least part of the fault lies in the public and financial community expecting too much of banking supervision. "Some people," he says, "find it hard to understand how anything can go wrong. Supervision cannot prevent fraud or people deliberately going outside the law."

As to the supervision itself, Mr Martin believes that Hong Kong has "a sound system." Monthly returns are examined by Mr Martin's office—he is commissioner of both banks and DTCs—and in the case of DTCs the returns are supplemented with a full annual review of company accounts and management which lasts two-and-a-half weeks.

Mr Martin does concede that "It is true of course we have not been supervising these companies for very long. We have only been supervising them for five years and it has taken time to expand staff in this office." Mr Martin's staff is now 160-strong against just 70 five years ago.

Far from over

Will these extra staff and the completion of the restructuring exercise be enough to guarantee Hong Kong's credit system against another fit of jitters? It should help but the fundamental problem remains that many DTCs are heavily exposed to the property market—and the property slump is still far from over.

Some critics of Hongkong's banking system would argue that supervision alone is not enough—at least within the limits set for Mr Martin and his staff to operate. Hong Kong has no share stake discloure legislation, so ownership of banks or DTCs can be legally and efficiently concealed. Nominee companies are widespread. Existing legislation restricting loans by DTCs to their directors can therefore be circumvented if directors wish to conceal their identity as borrowers.

For the time being the Government is fighting shy of introducing disclosure legislation for the corporate sector as a whole, seemingly torn between supporting and opposing lobbies.

A package of legislation currently being considered by Hong Kong's Legislature would, however, serve if enacted to give some additional teeth to Hong Kong's supervisors. The proposed Bills would empower the Financial Secretary to order wide-ranging investigations into existing or former DTCs, looking not only at their accounts but also at their management and associate companies. Police would gain limited access to confidential data in the course of criminal inquiries and auditors would be obliged to tell regulators about any major anomalies which they encountered in the affairs of client DTCs.

Some of the new provisions would have been useful weapons for regulation in last winter's mini-crisis — particularly the move to give more responsibility to auditors, whose work has shown some alarming lapses in Hong Kong over the past couple of years.

FUND MANAGEMENT

Success story of rapid growth

Christopher Wood

FUND MANAGERS based in Hong Kong are a select crew, far removed from London counterparts managing, say, a local authority's pension fund on a salary of £30,000 a year and a company car. The investment manager with years of experience of Asian markets is a limited and valuable commodity in a fast expanding market.

The centre for managing money in the region remains Hong Kong despite the dominance of Japan as the market in which the funds are invested. The colony is popular for its low taxes and excellent communications.

Top fund managers in Hong Kong can expect to earn up to HK$1m a year, housing and the other expatriate allowances are provided. Some companies offer equity in the firm, others confine remuneration to profit-linked bonuses.

A study carried out of local fund management last year found 63 fund managers based in Hong Koog of whom 38 were British. Some 20 were local Chinese, three Australian. There was, curiously, only one American—perhaps reflecting a lingering colonial bias?

This, however, is a form of monopolistic control of which the British can be proud since Hong Kong-based fund management is a success story which has enjoyed rapid growth in the past decade on the back of mounting worldwide investor interest in Asian markets.

Far East arms

Local fund managers can be divided between Hong Kong institutions and those which act as the Far East arms of London or United States-based institutions. The two most important in the former category are Wardley Investment Services, linked to the merchant-banking arm of the Hong Kong and Shanghai Banking Corp and the fund management side of merchant bank Jardine Fleming (JF).

JF also has an active stockbroking side—it was the first overseas broker to obtain a dealing licence in Tokyo. JF says it decided to go into broking in a big way on the view that growing interest in Asian markets would mean that more people would want to run their own money rather than rely on unit trusts—a shrewd judgment.

Some of its competitors, however, suggest conflicts of interest may be inherent in running both a broking and a fund management arm, an argument JF refutes by reference to the performance of its publicly-quoted unit trusts.

In general, both Wardley and JF can rely on an abundant flow of funds from related institutions and other in-house clients—primarily the HK Bank for the former and sister companies Hongkong Land and Jardine Matheson for the latter.

This naturally reduces the need to go out marketing for money, though JF does have an active unit trust side with U.S.$1.3bn under management.

Wardley's units, however, tend to serve as window dressing to provide an indication of the competitive performance of its managers, though there are now plans afoot to expand this side.

Wardley is currently managing more than US$3bn from Hong Kong, its main Asian client base, and some Middle Eastern money. There is also a sizeable market in Hong Kong pension funds running into several hundreds of millions of U.S. dollars.

Sharp contrast

The success of Wardley's investment side was in sharp contrast last year to the gloom of its banking operations, which came unstuck in the debacle of Hong Kong's property crunch.

The result, apparently, was zero bonus payments for expatriate staff, including the investment team—an unheard of phenomenon during the recent bom years when annual bonuses could be in the region of £20,000 a head. To try to ameliorate some of the damage stemming from the collapse in property prices, Wardley this year set up Hong Kong's first-ever property trust.

Developers may exchange property for units in the trust. So cynics say its main use may be to increase the apparent liquidity of strained corporate balance-sheets.

Apart from Hong Kong-owned institutions, the three most specialised investment management arms based locally are GT management, Henderson Baring management and the more recently arrived Fidelity International.

These three share links in personnel terms. John Bolsover, Henderson's managing director, left GT in 1975 to found Henderson Baring — jointly owned by Henderson Admioistration and Baring Brothers. Still only in his mid-30's, Bolsover's is an evident success story with US$1.8bn under management in the region, comprising primarily Japan, plus Singspore, Malaysia, South Korea and Australia.

Less than half of the managed funds originate from the controlling shareholders. Another familiar figure in the local fund-management scene ia Peter Pearson, an Australian. He also left GT—an *established* breeding ground for talent and not afraid to let youth sink or swim—to join Bolsover at Henderson. He subsequently went to set up *Fidelity's new Hong Kong* office in 1981.

Although relatively low-profile, in sharp contrast to some of Hong Kong's spivvier financial operators, both Bolsover and Pearson command reputations as aggressive investors, always ready to take the contrary view if the fundamentals seem to bear it out.

Two examples of this aggressive approach: during the whole of 1982 Fidelity never owned a single stock in Hong Kong, avoiding last autumn's dramatic sell off. In January 1983, Fidelity re-entered the market in time to catch the rally.

Likewise, Henderson took the courageous decision of launching a new Hong Kong fund on December 6—which happened to be just four days after the market finally bottomed. In mid-April the net asset value was up by 41 per cent, but since then manager Jonathan Compton has seen much of the gain wiped out by the continued weakness of the HK dollar—the fund is U.S. dollar-denominated and unfortunately has not been hedged for HK dollar exposure.

The same readiness to take a view and commit funds to it is typical of GT—one of the most successful HK-based fund managements.

GT bas no dominant institutional ownership—a definite selling point for potential clients—and was formed in 1969 in London with £10m to manage. A year later, on the initiative of its guiding force, Richard Thornton, it was the first pure London-based fund management group to set up a Hong Kong office.

From these origins, GT now bas worldwide funds uoder management of more than US$2.5bn, of which just under US$1bn was managed from Hong Kong—at least 75 per cent of that figure invested in the Japanese market.

Although GT made its name managing money in the Far East, the reduced weighting now reflects continuing bullishness on both Wall Street and London. Present international model would be 50 per cent U.S., 25 per cent Europe and 25 per cent Far East.

A unique feature of the GT operation is its separate economics department, run by monetarist John Greenwood. Greenwood and fellow economist Hugb Sloaoe spend most of their time analysing international monetary policies. If they do not like what they see, which usually means an *expansionary* and *therefore* inflationary outlook, GT will hedge any currency exposure.

Main growth

At present, the main growth area for international fund managers is U.S. pension funds, the so called "Erisa" (Employee Retirement Income Security Act) accounts. After years of American trustees refusing to diversify funds overseas, the pattern began to reverse two to three years ago.

It is reckoned that US$12bn of American pension fund money will be invested outside the U.S. by the end of this year and US$25bn by 1985.

Typically, trustees will allow 5 per cent of invested fund money to be allocated on a market capitalisation basis, and the Japanese market accounts for 45 per cent of world non-U.S. markets in terms of capitalisation.

The new trend has its irony, since it was prompted by the prolonged weakness of the U.S. dollar during the 1970s and a dull Wall Street. The American stockmarket has in fact outperformed Asian markets in the past year and the dollar has remained strong.

Still, most managers seem convinced that the diversification will continue. Moreover, only a few players seem to be catching the big accounts.

One Hong Kong Fund manager said: "80 per cent of the U.S. money is going to 20 per cent of the investment houses."

Fidelity may have a natural lead here because of its American parentage. It currently manages U.S.$2.1bn worldwide and its American parent U.S.$18bn tapped from *Erisa accounts*.

It presently manages US$650m-700m of U.S. pension fund overseas mooey, and GT has US$360m of such money under management.

London-based rivals for a piece of this action are Morgan Grenfell, the city merchant bank: and Rowe Price Fleming and associates, a joint venture between Jardine Fleming of Hong Kong, Robert Fleming of London, aod the American house J. Rowe Price and Associates.

One question now facing many HK-based managers is whether to transfer more of their operations to Japan. The trend seems to be in this direction, though no one is in a hurry to move completely out of Hong Kong because of its convenience.

Recent weakness in the Hong Kong dollar is, in fact, beneficial, as costs are denominated in local currency and income usually in U.S. dollars. Jardine Fleming already manages all its purely Japanese unit trusts from Tokyo, the rest from Hong Kong. Henderson and GT both have representative offices in Tokyo.

Just how quickly this trend away from Hong Kong develops will depend both on the colony's own future as a financial centre and on Japanese authorities' attitude towards the taxing of overseas fund managers.

FAR EAST FUNDS

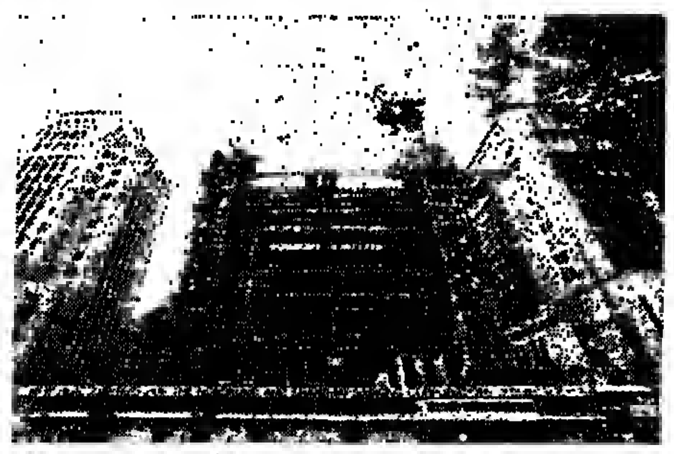
Relative performance over the six months to August 22

Manager and fund (currency)	% growth
Save and Prosper Jardine Far Eastern (US$)	26.80
Gartmore HK and Pacific (HK$)	15.20
GT Asia (US$)	22.70
Britannin Far East (£)	5.30
JF Pacific (US$)	17.50
Henderson Baring Pacific (US$)	30.70
Hill Samuel Crossbow Fund (SwFr)	34.50
(or US$)	28.55
Fidelity Pacific (US$)	19.70
Lazard Bros. Far East (US$)	27.90
Hambro Pacific Far East (HK$)	27.80
(or US$)	13.70
Wardley Nikko Asia Fund (US$)	0.50

● The above table was compiled by Personal Financial Consultants, a Hong Kong broker in investment advice. It shows the relative growth of a group of Far East unit trusts covering primarily Japan, Hong Kong, Singapore and Malaysia (though some include Australia). The Fidelity Pacific Fund also features investment in U.S. West Coast technology stocks.

PROFILE: Hongkong Bank

Preparing for a new era



Going up: the new headquarters and its costs, likely to be more than £500m.

MOST BANKERS in Hong Kong would hardly dare be seen in public without a handsomely-cut double-breasted pinstripe and an ample display of gold-linked cream cuffs. Michael Sandberg gives the air of being more a twills-and-Hush Puppies sort of man—perhaps because of all the bankers in Hong Kong he is the one who need worry least about superficial impressions.

Michael Graham Ruddock Sandberg runs The Bank, and while the Hongkong and Shanghai Banking Corporation does not run Hong Kong, it is the most powerful force in a powerful private sector.

Mr Sandberg is banker to the Hong Kong Government, a member of the Governor of Hong Kong's executive council, and chairman of a banking group with consolidated total assets of US$58bn at year-end 1982. The Hongkong Bank group, to use its its new corporate style, issues most of Hong Kong's currency, and dominates the domestic banking market. It also owns Marine Midland in the U.S., Anthony Gibbs in London and the British Bank of the Middle East.

The Hongkong Bank enjoys the largest market capitalisation in the Hong Kong stockmarket. The group merchant banking arm in Hong Kong, Wardley, has six times the total assets of its main rival.

Group net profit in 1982 topped HK$2.3bn — and that was only the profit which the bank chose to declare, within the privilege of limited accounting disclosure allowed by Hong Kong's regulatory *authorities*.

Michael Sandberg presides over this empire from a temporary office in Admiralty Centre, just half-a-mile away from the site at Number 1, Queen's Road Central where the Hongkong Bank is building a new headquarters of titanic splendour. A cabinet of ornamental timepieces decorates one wall of the chairman's office. Horology is Mr Sandberg's hobby. Time is money.

Era of growth

Now 56, he has spent 34 years with the Hongkong Bank, rising to the chairmanship of an institution which concentrates a great deal of power in a few senior hands. Many of the great and the good in Hong Kong are non-executive directors of the bank—Sir Y. K. Pao, Mr Li Ka-Shing, Mr David Newbigging, for example. But of the executives on home base it is Mr Sandberg and recently-appointed main board director Mr William Purves who really matter.

Mr Sandberg's tenure as chairman has been an era of spectacular growth for the Hongkong Bank. He masterminded the Marine Midland acquisition in 1980, and pitched for Royal Bank of Scotland in 1981. In both cases the bids were made in the face of regulatory opposition, overcome in the U.S., but not in London.

Latterly, however, it is an era which has seen the bank uncharacteristically on a defensive tack. Rumoured costings of its new building have reached grotesque levels.

If the money changers were once turned out of the temple, their Hong Kong descendants are coming back with a bigger and brassier temple than religion ever built.

The final bill? Unknown—but by all accounts likely to be more than the £500m which the Hongkong Bank bid for the Royal Bank of Scotland.

The Hongkong Bank has also suffered problem property loans, though there is no suggestion that the bank cannot bear the cost of a few local loan delinquencies on its broad back. Nor, given the breadth and depth of its operations in Hong Kong, could the bank be expected to have trod a charmed path through the property boom-and-bust without catching the odd crab. Merchant banking subsidiary Werdley in particular appeared to have pushed its luck. It was to the chairmanship of Wardley, in November last year, that Mr William — "Willy" — Purves was appointed.

Mr Purves is a 51-year-old tough Scot with 29 years at the bank behind him. In August, he became a main board director of the bank, with the unprecedented consolidation in his hands of responsibility for all basic banking business, domestic and international.

His subsequent appointment to Wardley's chairmanship confirmed the impression of a man whose time had come—less entrepreneurial style than Mr Sandberg, more Scottish bluntness.

From outside the bank, Mr Purves is unquestionably seen as a credible successor to Mr Sandberg. The question is whether Mr Sandberg sees it that way, too.

Mr Sandberg has said he wants to remain chairman long enough to lead the bank into its new headquarters—due to be completed in 1985. By that time Mr Purves would be 54—not old by international banking standards, but late in Hong Kong terms to be taking on a top job. None the less, the rise of Mr Purves suggests that Mr Sandberg is grooming him as the next chairman. At least, if Mr Sandberg has an alternative in mind, he is not giving any clues.

Robert Cottrell

The stockmarket: **Robert Cottrell** discusses the effects of a collapsed property sector and continuing political nervousness

Foreign investors more optimistic

A COLLAPSED property market interlocking with political jitters has made 1982-83 a bear phase in the Hong Kong stock market. The Hang Seng index reached a three-year low of 676 on December 2, 1982 before recovering slightly to close 1982 at 783, a decline of 44 per cent over the year. In 1983 the trend has been towards nervous and gradual recovery, led by overseas interest, and with occasional days of heavy turnover bringing some relief to hard-pressed stockbrokers.

The stock market is heavily influenced by conditions in the local property market. In 1981-82 some brokers estimated property to account for as much as three-quarters of all assets of publicly quoted companies. But with the collapse of the property market and a resurgence of interest in industrial stocks, a sample portfolio of industrial, utility and trading stocks posited by stockbrokers De Zoete and Bevan can be seen to have overtaken a corresponding portfolio of major property stocks in importance. On September 1, 1982 the non-property portfolio was capitalised at HK$31bn, the property portfolio at HK$27bn. On August 1 last, the value of the non-property stocks had grown to HK$40bn, while the property portfolio had shrunk to HK$26bn.

The inference, argue stockbrokers De Zoete, is that "the Hang Seng index itself is no longer dominated by property companies, which currently account for barely 40 per cent of the Hang Seng index's total capitalisation." (The Hang Seng index is a composite measure of the prices of leading stocks. It is the most widely used measure of Hong Kong stock market performance.)

The largest stockbrokers by market share are Jardine, Fleming, a merchant banking joint venture between Jardine, Matheson and Robert Fleming, and Sun Hung Kai, which is an associate of U.S. broker Merrill Lynch. Major British brokers represented in the market include Hoare Govett, Rowe and Pitman, Cazenove, and De Zoete and Bevan. Small local brokers proliferate.

900 members

It is estimated that the unified exchange will have over 900 members. A new and potentially important entrant to the stockbroking market this year is the Hongkong and Shanghai Bank, which holds a majority share in a brokerage called Mansion House.

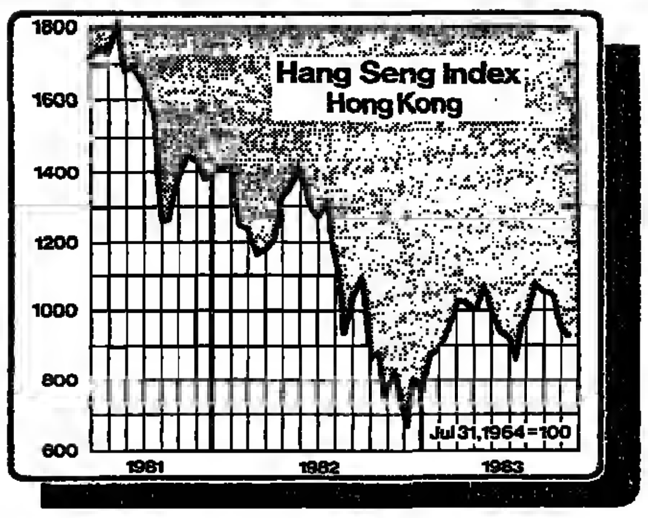
The standard brokerage commission is one-quarter of a per cent, though in practice the rate is negotiable, and some deals are said to have been done on rates as low as one-thirty-second of a per cent. Government charges a 0.3 per cent stamp duty on the buyer and the seller, and the seller also pays a HK$5 scrip transfer fee.

In volume terms, trading in the current year has tended to a daily range of HK$100m to HK$200m, though the stock exchange figures understate true turnover in shares, since not all deals pass through the market.

A notable feature of the trading in the first half of this year was a division in sentiment between local and overseas investors, with foreign buying, particularly from London, leading the market's winter recovery even in the face of local selling. This is probably due to foreign investors placing less weight on immediate worries about the political question.

The requirements of overseas institutional clients have accelerated the growth of corporate research among Hong Kong brokers—not always with the active assistance of the companies being researched. Standards of corporate disclosure are variable, while the quality of local auditing has also shown some alarming lapses.

The dominant mover of the stock market today—within the secular downward trend led by the property market—is still politics. Rumours and shifts in sentiment relating to the resolution of Hong Kong's long-term future are liable to provoke violent movements in both the stock market and the Hong Kong dollar, compounding the exposure of uncovered equity investors.



Unified SE: fitting four into one

HONG KONG'S UNIFIED Stock Exchange is scheduled to begin trading in mid-1985—but there remain major organisational decisions to be made by and about the brokers who will trade there.

The Securities Commission is receiving representations from brokers on the four existing stock exchanges as to who they think should be allowed membership of the new unified body.

The original legislation for the new exchange, dating back to 1980, now appears in need of overhaul to give added flexibility for the admission of corporate and foreign brokers, while it also remains to be decided whether or to what extent banks should be allowed to participate in the post-1985 market.

On the basis of representations made to the Securities Commission's special membership committee, followed by formal consultation with the exchangers, the relevant legislation may be amended. At present the odds appear to favour a unified exchange open to foreign brokers and corporate memberships, while opinions over banking participation are divided.

Hong Kong may follow London's example of allowing banks only a limited ownership of broking firms: it will also have to decide how and if an attempt should be made to distinguish ownership from management.

Planned computerised settlement will cut down time-consuming paperwork for stock transactions, although the new exchange will probably retain designated areas on the trading floor for those traditionalists who prefer the rough-and-tumble of open-outcry trading to the video-display terminals which most of the floor traders will use.

A final point to be resolved is who will sit where on the new trading floor. With some 3,000 bodies likely to be packing the Exchange Square premises at peak time, a trading desk in the thick of things can confer an advantage which no broker would willingly forego.

Disclosure sought of significant share stakes

Climate for regulation

IT WAS EASY enough, in 1981, to say that volatility and excess were part of the Hong Kong stock market, and that tougher regulations would serve only to sap the market's vitality. The excess of that year took the form of an excessively bullish market, in which investors only had to study trends closely enough to see which share had a ramp underneath it at the time.

The politics-and-property bear market which struck in 1982 did not bottom out until the Hang Seng index stood at 676 in December, having lost almost two-thirds of its 1981 peak value—and the mild recovery in 1983 has seen the index trade uncertainly and thinly at levels typically around the 900 mark, half that 1981 peak.

The stars of 1981 are the basket cases of 1983—and the pro-regulation lobby has more than enough evidence to present a prima facie case of some companies' having exploited Hong Kong's fast-and-furious dealing climate to create paper empires at the expense of minority shareholders and bank lenders. Officials now appear ready to tighten up such legislation as exists to protect investors.

The main item on the securities regulators' agenda is instituting a requirement for disclosures of significant share stakes in public companies. Disclosure was "on" in spring 1982, "off" by the autumn in the face of scepticism from some influential quarters and is apparently "on" again now.

The nature of the disclosure requirement may be for companies to make a clean breast privately to stock exchanges under listing requirements, rather than publicly as in London.

It will be for the legislators to decide the procedure if the regulators' course is blocked by offshore nominee holding accounts. One argument runs that, even if disclosure legislation can in practice be circumvented, the absence of it in principle contributes to a climate of diminished expectations for corporate accountability which encourages unscrupulous operators to try their luck.

Allied to the concept of disclosure of share stakes is prompt disclosure of major corporate news—so that if a company disposes of half its fixed assets, it should tell shareholders at the time rather than burying the fact away in a note at the end of the annual report a year later.

Surer ground

The Securities Commission has apparently felt on surer ground pushing this sentiment ahead and has under Mr Robert Fell's commissionership been pressing companies voluntarily to be more frank and timely.

Insider trading and short selling are more difficult issues—insider trading because in Hong Kong there is scarcely anything which could be described as "outsider" trading. The town is rife with gossip and tips. Better corporate reporting standards would help here.

One key area to tackle in insidering would be ethics for institutions which receive privileged financial information by discharging a banking function to companies, while at the same time holding or managing holdings of equities—particularly equity held as loan collateral, a popular form of debt security during the property boom.

A case in point is that of Trafalgar Housing, and its unquoted parent company, Central Enterprises, which announced liquidity problems and sought a debt moratorium in April. Bank lenders received private financial information on Trafalgar, including banks which held Trafalgar shares as collateral on loans to Central.

When, at the end of May, some banks began selling Trafalgar shares, the regulators were caught on the hop. Were the banks' legal rights to sell their shares mitigated by their possession of privileged information on Trafalgar? In practice not, but it was an awkward affair which must have left the Securities Commission feeling rather unhappy.

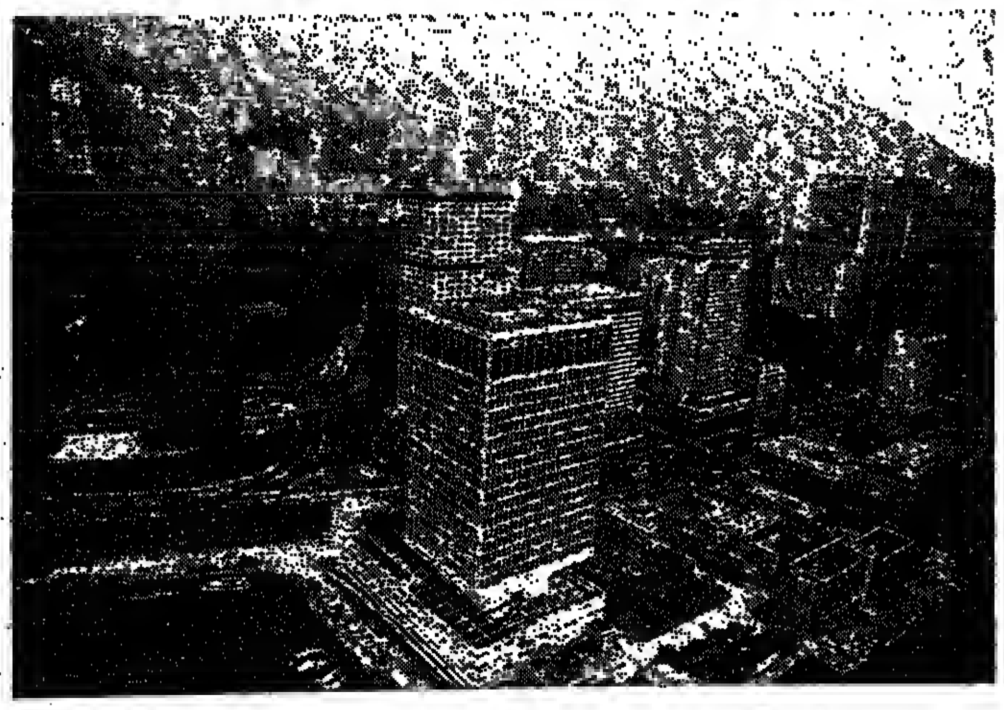
Short-selling is illegal in Hong Kong, but it is generally supposed to be commonplace; indeed, short-covering is frequently cited by commentators as grounds for a technical recovery in a falling market.

Hong Kong is a cash rather than an account market, so the unacceptable face of short selling may take the form of an unethical broker borrowing scrip from a discretionary client's account to lend to a more favoured client for the purposes of selling in the market.

It might be argued that the discretionary client's portfolio remains unchanged once the stock has been replaced by the borrower. The discretionary client, given the chance, would no doubt object vigorously to his stock being used to help drive down its own value.

The efficient solution might be in more trading over to an account basis and legalise short selling—but to do so would be a major exercise fundamentally altering the character of the market. For the time being, short selling is likely to remain an unwelcome but in practise unstoppable practice.

The busy floor of the Kam Ngan Stock Exchange, one of four. Below, the Central district where shock waves of the property sector collapse have been most strongly felt.



PROPERTY SECTOR

Robert Cottrell

Year of the collapsing company

IT HAS BEEN Hong Kong's year of the collapsing company. The aggressive gearing adopted by businesses anxious to maximise growth during the property boom made net asset values correspondingly more vulnerable when the downturn came.

Companies whose debt-equity ratio had looked comfortable enough on a year-end 1981 balance sheet found from the second half of 1982 onwards that property assets could be sold for nothing remotely like their balance sheet valuations. Where trading profits were the main presumed source of cash-flow, unsaleable assets meant unserviceable debts, and long hours of negotiation with weary merchant bankers.

An echo of the London property crash? Yes, but with an added dimension peculiar to Hong Kong. Some of the largest locally-quoted property companies are still family controlled. The family may hold its majority stake in the quoted vehicle through an unquoted holdings company, control of which will probably be vested in nominee companies—a perfectly permissible arrangement.

The effect is that the public company may gear up on the basis of its own balance sheet. The unquoted parent, meanwhile, may borrow on its own account, using its shareholding in the public company as collateral.

All well and good, so long as the property market, and by extension the property-based stock market, can sustain upward momentum. But when, as in 1982-83, the property market falls, the net worth of the highly-geared public company evaporates, and so in turn does the value of its equity used as collateral for parent company borrowing.

Double-whammy

For banks imprudent enough to lend into such situations, the result is what Americans might call a "double-whammy."

Such is roughly what happened at Carrian, still fighting for its life and seeking a debt-for-equity swap with its bankers. EDA Investments, the Chung family property group, is in liquidation.

Trafalgar Housing, which overstretched itself by trying to diversify away from the Hong Kong property scene, was at the time of writing this survey still trying to negotiate a debt moratorium with its bankers. These are only the most public examples of companies in trouble.

The euphoria of a property boom is a strange thing: it appears to cause otherwise highly reputable accountants and merchant bankers to associate their names with frankly dubious propositions — stock analysts and financial journalists to suspend their critical faculties: directors of public companies to treat those companies as personal fiefs.

The people who have suffered worst as a result are outside shareholders—who, according to prevailing Hong Kong philosophy, should not have been buying shares if they did not understand the risks implicit in such investment.

A new generation of bankers is in place to work-out its predecessor's loans. Mr Robert Fell, the Securities Commissioner, has suggested publicly that auditing standards locally might have been a little higher.

China in Hong Kong: **Teresa Ma** looks at the growing two-way trade and cross-investment between the two neighbours

China's second largest customer

HONG KONG and the People's Republic of China (PRC) enjoy an extensive and mutually beneficial relationsbip of trade and cross-investment. The British territory, last year China's third largest trading partner, moved up to second place in the first half of this year when U.S.-Chinese trade relations deteriorated over a textiles dispute. Hong Kong is a major re-exporting centre for Chinese manufactured goods.

It buys much of its food and water from China. Studies are under way on the economic feasibility of a nuclear power station in the adjacent Guangdong province to supply electricity to Hong Kong. Tourists in Hong Kong will fied some of their best clothing and souvenir bargains in the large local department stores specialising in Chinese-made product lines.

Less easily quantifiable are China's direct investments in Hong Kong. This is a reflection of both the diversity and the publicity-shy nature of local PRC-owned enterprises.

Some firms may be Hong Kong registered and PRC-controlled, but with Hong Kong residents in the visible managerial roles. Many Chinese state-owned enterprises operating in Hong Kong do so with unlimited liability and so do not appear at all in the Hong Kong company registry.

Mr David Newbigging, chairman of Hong Kong conglomerate Jardine, Matheson, estimated that at year end 1981 Chinese investment in Hong Kong was of the order of U.S.$3-5bn. The figure is indicative of a magnitude of commitment presumed to make the PRC the largest external capital investor in Hong Kong.

The largest and most public of PRC organisations in Hong Kong is the 13-strong "family" of banks headed by the Bank of China. (The inter-relationsbipa between China-owned businesses tend to be obscure. At best, officials will refer to other China-owned groups, formally, affiliated or not, as "sister" companies.)

The 13 PRC-owned banks are estimated to hold a quarter of the local retail banking market, second as a market force only to the Hongkong and Shanghai Banking Corporation. The Chinese banks operate between them a network of 216 brancbes, and are partners in China Development Finaoce (CDF) which acts as their vehicle for managing jointly-beld direct corporate investments.

Bank of China recently published in Peking its 1982 annual report, showing deposits 51 per cent higher over 1981 at Renmimbi 67.9bn. The bank does not, however, break down its deposit structure geographically.

Deposits of US$5bn

According to an unofficial estimate (by the Far Eastern Economic Review), deposits with the Bank of China's overseas branches totalled U.S.$5bn at year-end 1980, or one-quarter of the bank's total deposits at that time.

The Bank of China is Peking's foreign exchange and international hank. While its main job is to mobilise foreign exchange funds for domestic projects, its overseas branches also transact regular banking business in their local markets.

The Bank of China "family" is particularly important in Hong Kong for both banking and political reasons. As a contribution towards soothing nerves in Hong Kong strained by the 1997 issue Bank of China offered in February this year a programme of unsecured loans to small industrialists of up to HK$200,000 at preferential interest rates.

China bas been active in the Hong Kong property market, which boomed through the late 1970s, overbeated in 1980-81, and is now in collapse. The Hongkong Bank has estimated PRC corporations to have paid over HK$5bn for property during the last five years.

Joint venture

One of China's most dramatic incursions into the local property market came when the PRC-owned China Resources, a large and diversified trading and industrial group, bought into a consortium hoping to develop a new town called Tinsbuiwai, in Hong Kong's new territories hard by the Chinese border.

The 488 hectares of Tinshuiwai land had been parcelled together by two Hong Kong property development groups which in 1979, disposed of the bulk of their stake to other huyers including China Resources. The result was the creatioo of a consortium called Mightycity, owned 51 per cent by China Resources, 25 per cent by Trafalgar Housing (a Hong Kong husiness not related to Britain's Trafalgar House), and the balance by original entrepreoenrs Cheung Kong (Holdings) and Wheelock Marden.

The Tinshuiwai project still required Hong Kong Government approval, since it would have to be integrated into broader public-sector planning to develop the New Territories, and would imply major public infrastructural investment. In July 1982, the Hong Kong Government decided the original scheme for a new town of 535,000 people on the site was too ambitious. Instead it compromised by buying 318 hectares back from Mightycity for HK$1.46bn, and going into joint-venture with the consortium to develop the remaining 170 hectares as a town for 135,000 people.

Officially, Hong Kong's Goveroment welcomes the opportunity to develop a town of appropriate size at Tinshuiwai, demonstrating a joint long-term commitment by Hong Kong and PRC interests towards the development of Hong Kong.

Unofficially, some outsiders believe that the extent of China Resources' exposure to a potentially useless site caused the Hong Kong Government to support it with a joint-veoture proposal that was motivated by politics as much as cost-efficiency.

China Resources' other major physical presence in Hong Kong is a nearly-completed new headquarters building in Wanchai, on Hong Kong Island.

Although China Resources has been in Hoog Kong since 1948, it registered as a Hong Kong company only in July this year. With a share capital of HK$200m, and formally named China Resources Holdings, the company has hegun to consolidate the offices of its subsidiaries and associates within its new headquarters.

Other important PRC state corporations operating in Hong Kong include the China Merchants Steam Navigation Company, which is under the direct control of Peking's Ministry of Communications. CMSN is estimated to handle perhaps one-third of all sea freight from China.

The Hong Kong link is particularly important since Hong Kong officials estimate that 80 per cent of China's shipped exports are bound for the British territory.

CMSN is currently spending HK$33m on developing a 13,000 square metre Hong Kong site for a cargo pier and Godown. The site, granted by the Hong Kong Goveroment, includes 7,000 square metres of seabed.

It is usual for major Chinese corporations to acquire sites for their own use through direct negotiation with the Hong Kong Government rather than by public auction. It is thought that public purchases through auction would be considered unseemly, and might also appear to confer legitimacy on the Hoog Kong Government's right to dispose of land which China claims to he its own territory, extracted through oppressive and unequal treaties in the last century.

Foreign tourists visiting *China* via Hong Kong are *likely* to arrange their itineraries through the state-owned China International Travel Service (CITS) whose local hranch opened in 1981. Its longer-*established sister-agency China* Travel Service caters for ethnic Chinese visitors to the PRC.

Some 4m Hong Kong residents are estimated to visit China annually, cootributing perhaps half of China's total travel revenue.

China Travel Service is also active in local property developmeot, investing in the creation of 800,000 sq ft of warehousing space in Kowloon to complement three other warehousing locations already completed.

China's "open door" policy and subsequent decentralisation of foreign trade has enabled many provinces and municipali*ties to establish* enterprises outside the PRC. Guangdong, Hebei, Fujian and Liaoning provinces and the Peking, Shanghai and Tianjin municipalities, all have trade offices in Hong Kong—*which* have contributed to reducing China Resources business.

In their independent effort to court Hong Kong huyers and investors, such corporations often compete directly with one another.

Guangdong province has the largest representation, mainly due to its proximity to Hong Kong. Tha Guangdong Water Conservancy and Hydropower Engineering Development Company, set up in April 1982, has landed more than 10 construction contracts worth a total in excess of HK$60m, according to the company.

The Guangdong hranch of the People's Insurance Company of China (PICC) has plans to link up with Guangdong Enterprises (GE), the province's Hong Kong trade representative.

The new venture will be in direct competition with China *Insurance Company and Tai* Ping Insurance Company, both operating under the aegis of the PICC. China Reinsurance Company and Ming, an insurance company, are also China-*controlled*.

A priority objective of local offices of China trade organisations is to transfer advanced technology acquired in Hong Kong toward China's domestic industries. China-controlled companies in Hong Kong—some in joint venture with local and foreign interests—are already manufacturing integrated circuits, watch cases, cigarettes, textiles, cement, machine tools and monosodium glutamate.

The Shanghai Investment and Trust Corporation and tha Shanghai Patriotic Construction Company will soon set up Hong Kong offices which will act as their arms for investing in Hong Kong industry. Their Hong Kong manufacturing plants are to be avenues for upgrading Shanghai's industries.

As the PRC industrialises at higher levels of technology, and *exploitation of its offshore* oil reserves begins, Hong Kong is placed to play a still more important role in China's modernisation.

China will have an increasing *interest in Hong Kong's* productivity, access to new products and processes, and ability to act as a trading and financial entrepot. Recent falls in the international value of the Hong Kong dollar have brought forth from Peking—and from the Bank of China in Hong Kong—responses indicating that China has a large and understandable concern for the stability of the currency, hut an imperfect understanding of the factors which shape the psychology of Hong Kong's financial markets.

Hong Kong's economic importance to China must be weighed in the balance by Peking against its political ambitions towards its prodigal child.

Teresa Ma is China Trade Correspondent of the Far Eastern Economic Review.

CHINESE INTERESTS IN HONG KONG

A selection pf companies representing interests of the People's Republic of China in Hong Kong.

ENGINEERING FIRMS:

Chioa Ocean Oilfields Services
A joint venture of China National Offshore Oil Corp., China National Oil Joint Services Co., China Development Finance Co. and China Resources Co.

China Overseas Building Development Co.
Under the aegis of the China National Construction Engineering Corp.

Kiu Kwong Investment Corporation

Wah Tak Marine Engineering Co.
Under the aegis of China Ocean Engineering Services Corporation, China Towing Co. and China Salvage Co.

Zhen Hua Engineering Co.
Under the aegis of China Harbours Engineering Co.

INSURANCE FIRMS:

China Insurance Co.
Under the aegis of the People's Insurance *Co. of* China.

China Reinsurance Co.

Ming An Insurance Co.

Tai Ping Insurance Co.
Also under the aegis of the People's Insurance Co. of China.

PROVINCIAL ENTERPRISES:

Fujian Province:
Fujian Enterprises Co.

Guangdong Province:
Chu Kong Shipping Co.
Guangdong Enterprises Ltd.
Its subsidiaries include Guangdong Tours Co., Guangnan Trading Co., Yue Soon Ltd.
Guangdong Water Conservancy and Hydropower Engineering Development Co.
Mannicon Enterprises Co.
A cargo transport service company

Guangxi Province:
Kwai Kong Shipping Co.

Hebei Province:
Hebei Enterprises Co.

Liaoning Province:
Chung Liao Trading Co.

Peking Municipality:
Scriven Trading Co.

Shanghai Municipality:
Everbright Industrial Corp.
A private enterprise backed by Shanghai residents with a loan from the Chinese Government
Shanghai Industrial Investment Co.
Violight Corp.
The sister company of Everbright Industrial Corp.

Tianjin Municipality:
Tsinlien Trading Co.

Zhejians Province:

SHIPPING FIRMS:

China Merchants Steam Navigation Co.
Under the aegis of the Ministery of Communications

Chu Kong Shipping Co.
Under the aegis of the Guangdong Provincial Government

Kwai Kong Shipping Co.
Under the aegis of the Guangxi Provincial Government

MISCELLANEOUS:

China Air Materials Co.

China Inspection Co.
Under the oegis of the China National Import and Export Commodities Inspection Corp.

China International Travel Service
Under the aegis of the National Service

China International Trust and Investment Corp.
Under the aegis of the Peking headquarters

China National Aviation Corp.
Under the aegis of the general administration of the Civil Aviation of China

Heping Book Store
Under the aegis of the Guiji Shudian

Shui Hna *Development and* Enterprises Ltd.
Under the aegis of the China National Light Industry Import and Export Corp.

South Film Corp.
Under tha aegis of the China Film Export and Import Corp.

OFFSHORE OIL

Robert Cottrell

Exploration moves a step nearer

EXPLOITATION of China's offshore oil reserves has come a hig step closer in recent months with the first awards of exploration and development contracts to international consortia.

In May a consortium led by British Petroleum was awarded five concessions in the South China Sea and Yellow Sea areas. In August Occidental became the first U.S. company to win an offshore contract through the tender process, closely followed by an Exxon-Shell consortium. Other Japanese, French and American oil groups are already drilling designated zones in Chinese waters through deals struck outside the main tendering process. The tendering, which closed in August last year, drew 32 companies to make 102 bids covering 43 hlocks in the Pearl River and South Yellow Sea areas.

The financing implications of the overall programme are massive. Mr Thomas Emmons, a vice-president of Citibank's energy division, has estimated a total cost of perhaps US$35bn. He suggested, in a speech delivered in Hong Kong last November, that after allowing for equity and parent company investment, oil companies might still be looking for more than US$10bn of external funding over the next decade.

Financial area

Finance is the area where Hong Kong is most likely to make its contribution towards China's oil programme. It is the huh of South-East Asia'a capital markets and the natural centre whera such external financo might he raised through syndicated hank loans. Some international banks in Hong Kong have already committed resources to analysing and forecasting the needs of the prospective local oil industry. "It demonstrates to clients that the bank is well-positioned," says Mr Jayson Mugar, China Department manager and offshore oil expert at the Chartered Bank in Hong Kong.

Banks tend to come into the oil industry funding picture once wells have been explored and, where favourable, production brought under way. The hit-or-miss risks of exploration are the province of the equity investor. Major international oil companies such as BP have not only a large corporate equity base but also earnings from other oilfields with which to finance new exploration.

Smaller companies may need to float new equity with specific exploration in *mind*. This may be through private placement —as Britain's Cluff Oil, a bidder in the Chinese programme, has already done in Hong Kong. Alternatively, new equity may be raised through the stock market, where so-called "blue-sky" exploration ventures tend to be highly volatile shares.

Hong Kong will expect to play a rola in supporting and servicing the oil companies working off the China coast—hut a role delineated by China's own express desire to keep as much support husiness as possible within the country. Oil companies hidding for Chinese rights have heen told from the outset that they must favour Chinese enterprises and personnel for all sub-contracting, with the proviso that such Chinese participation must be tendered on competitive terms.

Largest deal

Foreign investment in oil support functions therefore *tends to be organised* as joint ventures with various units of China's proliferating oil-related bureaucracy. The largest such deal so far signed has been tha creation of the China Nanhai-Baker Drilling Corporation, a joint-venture between Baker Marine or Texas and the China National Offshore Oil Corporation, China's master-company for managing the offshore oil programme. The new company will huild a sophisticated semi-submarsible rig in Shanghai, calling for an investment of U.S.$100m split equally between the partners. The company may go on to build further rigs and offer rig-related services.

Another recent joint venture to be announced was the Zhongzing Offshore Marine Service Company, established in March to own and operate ten offshore supply vessels. The Chinese partner is the Joint General Petroleum Service Corporation of the South China Sea; the foreign partner is Yuet Shun Shipping, representing Hong Kong and Norwegian partners.

A third project indicative of the oil-related enterprises now heing established is the formation of a consortium to build a 260-room hotel at Shekou, an area of the Shenzhan Special Economic Zone adjacent to Hong Kong. Shekou has heen designated as one of the principal supply bases for international oil companies operating off the Pearl River. Partners in the new hotel are the Bank of China, the Hong Kong Bank, China Merchants Steam Navigation aod Hong Koog's Miramar Hotel group.

Champions of Hong Kong industry have made much play in recent years of the likely inability of China to supply the sophisticated engineering and logistics services which oil companies will need. It looks indeed as if China will be unable to meet oil industry needs in the earlier stages of the exploration programme and that a proportion of heavy engineering work may be farmed out to Singapore, lighter engineering and personnel-related work to Hong Kong. Bnt some Chinese engineers are surprising Western sceptics. One senior Hong Kong shipping figure says ships huilt to Japanese specifications in Shanghai yards are at least as good as those built in Japan.

Oil companies are likely to he concerned not only with the "hardware" of the oil effort. They are likely also to fear delays and confusions arising from China's internal bureaucracy in such areas as customs, travel permits, food, accommodation, banking and insurance. As trailblazer of the *foreign oil* companies BP and its partners look likely to be exploring not only Chinese oil *but also Chinese* oil technology ann support servicea. The international oil industry waits keenly to learn which companies will follow BP and its partners in the awards quene. Hong Kong, *meanwhile*, hopes that the prospect of perhaps 30,000 or more expatriates working on the South China coast will perk up its property prices and support services.

Prospects

Inevitahly, oil prospects have been invoked in the debate over Hong Kong's political future, notahly by a Chinese official who held it out in December as a nerve-calming prospect. "Cannot the Hong Kong economy prosper with an immense oilfield under exploitation in its neighbourhood?" asked Mr Wang Kuancheng, a member of Peking's National People's Congress. "Hong Kong is merely a small place, like a little bird. How many grains of rice can such a little bird eat? Tha oil projects will surely be ahle to feed Hong Kong."

If the oil projects can feed Hong Kong, many Hong Kong companies also hope that their commercial efforts can help feed the oil projects. Massive flows of capital associated with Chinese offshore oil remain two or three years away but they are coming. "The tip of the iceberg," says Mr Mugar, "is moving up."

ELECTRONICS

Peter Montagnon

Government's dilemma over non-intervention

HONG KONG'S young but growing electronics industry has begun to pose a new challenge to the Government's traditional policy of "positive non-intervenntionism" in business affairs.

Identified as a growth-industry of the future which could take up some of the employment slack left by the contraction of traditional industries such as textiles, it faces a constant need for product innovation and improvement in a highly competitive market which is already being actively nurtured by other regional manufacturers, notably Singapore, Taiwan and South Korea.

Yet as things stand at present Hong Kong's 1,300 electronics producers are ill-suited to meet this challenge. Over 80 per cent of them employ fewer than 100 people.

They lack the qualified manpower, technical expertise and international marketing capabilities needed for long-term survival in a world where profit margins on established product lines are under constant pressure.

This has posed a serious policy question for the Government. In the past it has always pursued a policy of leaving industry as far as possible to its own devises in order to ensure the survival of the fittest.

Subsidies and tax holidays are unknown in Hong Kong—though they are part of the industrial armoury of Singapore its arch electronics rival.

So far Hong Kong's approach to the problem shows all the signs of a timid reappraisal of its industrial policy. Minimal amounts have been spent, basically on education, training and technological development.

For the time being, however, the industry's longer-term problems have been masked by a sudden sectoral revival as Hong Kong electronics manufacturera respond to the economic upturn in the U.S.

According to Mr Paulus Chan of the Government's Industrial Development Board (IDB), "at the moment nobody's going to say that times are bad."

Last year was a particularly bad one for the electronics industry. The recession saw the closure of 16 local factories; Hong Kong's electronics exports fell to HK$8.46bn from HK$9.17bn in 1981 and Conic, the colony's leading manufacturer recently reported a 29 per cent decline to HK$32.6m in net profits for 1982.

Mr Alex Au, Conic group chairman, blamed the drop on an expected downturn in orders during the second half of last year, particularly affecting computer components. Exports of these fell by 22 per cent last year, although there was growth in other areas, notably telephones.

Now he says the outlook has improved with orders for telephones, colour televisions and audio goods, particularly buoyant since the Chinese New Year. Industrial analysts point to other signs of a boom: there is a shortage of components and some factories have begun to work three shifts a day.

Even if the boom has helped the industry's short-term outlook it by no means assures the sector's medium and long-term future. That future is vital to Hong Kong's economy.

Already electronics employed 85,496 workers at the end of last year and total electronics exports, even at last year's depressed levels, made up 10.2 per cent of the colony's domestic exports.

Traditional

Industry analysts argue that these official figures probably understate the true importance of Hong Kong's electronics industry because of the blurred distinction between pure electronics and some of Hong Kong's other traditional industries such as toys and watches which also rely heavily on electronics technotogy.

As in these areas Hong Kong has made its name principally as a manufacturer of other people's products. Electronics manufacturers assemble to order from foreign customers and frequently imitate other successful products.

The problem with this approach, however, is that competition soon leads to a serious erosion of prices. Manufacturers see their profit margins dwindling and as their future becomes less secure it is harder for Hong Kong to find the resources to develop its own products.

What some industry analysts see as vital for Hong Kong if it is to keep an electronics industry over the medium-term is a shift from a pure "trading" approach to a more entrepreneurial way of doing business.

This means investment in research and development, the employment of more qualified personnel, larger production units and the development of international design and marketing expertise.

In short, Hong Kong has to move "up-market" just as it did when threatened by cheap textile exports from neighbouring producers. But moving up-market in electronics is much harder than it was in the garment industry.

This is where the Government could come in. At the moment officials are still adamant that there is no need for Hong Kong to change its policy of non-intervention.

Yet the Government is moving perceptibly to help the electronics industry where it can. Its actions so far have had an impact only at the margin, but more is being done to help the industry than would have been thinkable two or three years ago.

"For instance," said Mr John Yaxley, director of industry, in a recent speech, "the two universities and the Hong Kong Polytechnic are conducting research and development projected on failure and reliability of integrated circuit structures, development of single chip systems, integrated circuit fabrication manufacturing facilities and computer-aided design systems."

In addition a micro-processor development project is being carried out by the Hong Kong Productivity Council, which recently completed a detailed report of the electronics industry that is to be considered by the Industrial Development Board in July, he said.

In money terms, however, it is clear that Hong Kong is not prepared to go very far to help the industry. One other government project has been to subsidise the salaries of new graduate entrants to the industry in order to encourage the employment on taking better qualified personnel.

Assistance

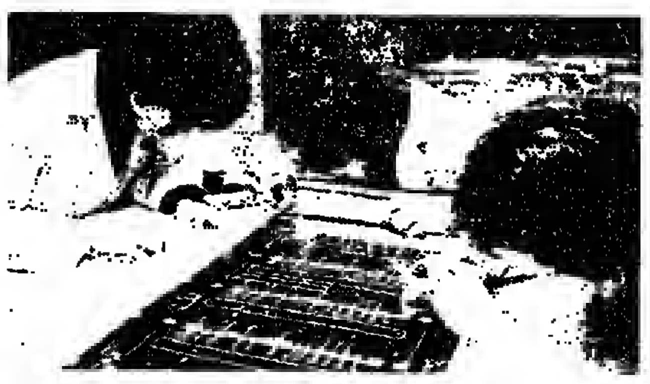
Starting this year it is to pay half their salaries for the first 18 months at a total cost of some HK$2m annually. Yet this figure is tiny when compared with the industry's total turnover and the amounts being spent by other regional governments.

Will this sort of assistance be enough to see the electronics industry through the second half of this decade? Many analysts argue for help on a grander scale, for example through the provision of industrial land at subsidised rates where larger factories with longer production lines can be installed.

True such pleas may soon become obsolete. The once much-vaunted land cost obstacle to development looks much less valid with the collapse of the property market.

Yet if Hong Kong industrialists can use this opportunity to establish a more permanent hold on the world electronics market there is one further problem which even the Government cannot overcome. This is the very nature of Hong Kong businessmen brought up in a tradition of exploiting other people's research through imitation.

As a report by the Bank of America put it: "If your chief engineer can quit, set up his own company and be producing your product the same year, you are in the wrong product line."



Laying out printed circuits at a Hong Kong factory.

PROFILE: John Richardson

Breezy chief at 'Hutch'

IT IS, on the face of it, an odd combination — but one which seems to work well enough for Hutchison Whampoa. The group is chaired by Mr Li Ka-Shing, property tycoon, a solitary man of genius who bought his key stake in "Hutch" from the Hongkong Bank in 1978.

In the managing director's chair sits Mr John Richardson, a breezy, thoughtful Australian-educated Londoner with a background in city stockjobbing and a stint with Slater Walker.

Mr Li's holding in Hutch—probably now just over one-third of the group's equity—is more than just a portfolio investment. As chairman, his is the deciding hand and it is easy to see echoed in Hutch, Mr Li's own liking for liquidity. By yearend 1982, Hutch showed HK$1.5bn of cash in its balance sheet, equivalent to one-third of shareholders' funds.

Pots of corporate cash are very reassuring for people who own companies, perhaps less fun for people who manage them. Would Mr Richardson like to be out and spending Hutchison's millions on manageable assets? Perhaps, he says, when the time and opportunity comes, and it is not for the moment burning a hole in his pocket. Besides, cash needs managing, too. Fortunately, Hutch seems to have done some useful hedging ahead of the past year's severe depreciation of the Hong Kong dollar.

Hutch is a conglomerate—the sort of amalgamation of diverse interests which management theorists made fashionable in the 1960s, but whose rationale now seems open to question. It includes property, shipping services, retailing, quarrying, plus stakes in a hotel, a newspaper, and a toll-tunnel under Hong Kong harbour.

But Hong Kong cares little for fashions in management theory, and more for cashflow. Hutch is a well-respected local share now because, unlike businesses which lost their heads in the property boom, it has steady recurrent earnings which are not now being swallowed up by over-ambitious capital projects.

Hutch's spread of interests is part-accident, part-design. The accident came when the company almost went bust during a fit of diversification in the early 1970s, and was bailed out by the Hongkong Bank. The design comes from Mr Richardson who in 1976 was given specific responsibility for corporate planning.

He was then 33, and had joined Hutch in 1972. His appointment as chief executive came at the beginning of 1981, when he succeeded Mr Bill Wyllie, the tough Australian corporate doctor now running BSR.

As things now stand, Hutch is one of the few large locally-quoted companies whose chief executive does not have to spend sleepless nights worrying about falling property prices. Mr Richardson thinks that the end of the boom should have a salutary effect on local management — "companies really have not had to work all that hard," he says of the past few years in Hong Kong. "They have all lived off the back of the property boom while manufacturing took second place."

Cheaper rents, he says, might be no bad thing if they help to make Hong Kong business more internationally competitive. "One of the great prospects to look forward to," he says, "is an export-led recovery over the next two or three years."

Robert Cottrell

TEXTILES

Anthony Moreton

A more up-market role

THERE WAS a time when the name Hong Kong was synonymous with cheap and rather nasty shirts, shoes, socks and sandals. But not any longer.

Hong Kong has moved up-market. Its designers, like Eddie Lau, Hannah Pang, Jennie Lewis and Diane Fries, have their clothes on the racks of the very best stores in London, New York and Paris. Hong Kong is fashion-conscious and fashionable.

This change of emphasis, from being a producer of grey cloth to concentrating on value-added clothes, has come about because of the rise of other countries, many of them also in South East Asia, which have supplanted Hong Kong's role as a producer of primary textiles.

Taiwan, South Korea, Indonesia and the Philippines are merely four which are cheaper producers but the really big competitor in this area is now the country that sits on top of Hong Kong—China.

China's massive textile industry can produce far more cheaply and in far greater quantities than anything from Hong Kong and so the colony has been forced to rethink the direction in which it is going.

Production fall-off

Since 1970, when production peaked, the number of spindles in use has fallen from around 1m to half that figure. In the last five years alone production of cotton yarn has dropped by a quarter and cotton piece goods by almost a fifth.

In the last two years, between 1980 and 1982, the number of spindles was cut by 30 per cent and the number of looms by 25 per cent. In the same period the numbers employed in the spinning and weaving sectors have dropped by a third.

The industry employs some 350,000 people in 13,000 plants. No other industrial sector comes anywhere near these figures. Electronics, the next most important industry, has some 90,000 workers in just over 1,200 factories and plastic products employs around 90,000 people in 5,000 plants.

Textiles—including clothing—is by far and away the leading export earner, too. Last year overseas sales amounted to some £3.4bn, far in advance of the next highest foreign exchange earner—watches and clocks with just over £700m.

The textiles side, though is becoming less important within the total. Last year textiles exports were just £500m while clothing sales overseas reached £2.88bn.

Despite all these changes, both clothing and textiles will continue to play a vitally important role in the economic life.

"It is not easy for us to diversify out of textiles," says Mr Jimmy McGregor, director of the highly influential Chamber of Commerce. "The two sectors account for a third of domestic production and 42 per cent of exports of manufactured goods.

"They employ almost half the workforce in manufacturing industry and must remain our core industry for at least the next 10 to 15 years."

This is not the most immediate problem that faces the industry, though. After a decade of almost uninterrupted growth, when gross domestic production rose by at least 10 per cent a year, Hong Kong came down to earth with a bump in 1982 when the rise was a mere 2.4 per cent. The clothing and textiles sectors shared in this fall.

The industry is therefore carefully watching the course of the American economy because the desired upturn will depend very much on that market.

The U.S. is the colony's major market. Last year it took 37.6 per cent of its overseas sales, compared with 36.3 per cent in 1981 and 38.8 per cent in 1977.

Income from the U.S. reached £1.16bn, a slight rise on 1981, and accounted for 14.4 per cent of the colony's total exports of all goods.

This year, business is beginning to boom again thanks to a strong gain in the U.S. — stronger than the 5.9 per cent rise in monetary value recorded last year.

From a textiles point of view the EEC as a whole is almost as important as the U.S. and Hong Kong bitterly complains that its treatment under the GATT Multi-Fibre Arrangement, the world agreement which regulates much of international trade in textiles and clothing, is loaded against it.

Hong Kong claims that under the second MFA, which expired last year, cuts in its trade with the UK, for instance, were responsible for reducing its share of the British import market from 16 to 13 per cent.

Justified

"Under MFA 2 the policy of cutting-back Hong Kong was justified on the grounds that this would make room for more favourable treatment for small suppliers and newcomers," the Government has said.

"But in practice the beneficiaries were not this deserving group but EEC suppliers who increased their share of the import market from 38 to 43 per cent."

The Government has also stated that under MFA 3 Hong Kong has just been categorised as a "dominant supplier" and, as such, "liable by EEC fiat for more restrictive measures, ostensibly to help the EEC solve its problems."

Hong Kong has an open-door policy on trade and sees no reason why it should be discriminated against by wealthy nations which are unable to put their own houses in order.

Miss Lydia Dunn, chairman of the Trade Development Council, is angry about what she sees as the restrictive nature of MFA 3. "The restrictions placed on us by the EEC were for political rather than economic reasons," she says.

"This is an open economy. We take everyone's goods without any tariff barriers and do not see why Britain and Europe should not be more liberal."

Dismal thoughts for landlords in the Central business district

SEVERAL CONVENTIONAL Hong Kong wisdoms are stood on their head in the 1983 report of the special committee on land supply, an officially-appointed advisory body.

Logic suggests that, since Hong Kong is a small place, industrial land should be in desperately short supply. Wrong, says the committee. There is more than enough industrial land either being developed or planned to meet demand until 2001.

Better, says the committee, to consider rezoning some industrial land for development of public sector housing, where there could be a shortfall of land after 1984-85.

The committee also says that, so far at least, the Government's hopes of balancing residents with jobs in Hong Kong's new towns is not meeting with total success. The major demographic shift in Hong Kong over the last decade has been through the development of towns in the new territories, where the Government has supplied vast blocks of public housing. But workers, it seems, prefer to work three to five miles away in the traditional urban areas of Hong Kong and Kowloon.

There is a case, the commitee suggests, for recognising this preference for worker mobility through increased investment in public transport.

The committee also has some dismal thoughts for the landlords of the Central business district, already suffering from oversupply of office space and falling rents. The central areas could yield as much as four million square metres of new office space through the redevelopment of existing sites, it says.

The strain on transport infrastructure would be intolerable. Should the Government not think, asks the committee, about identifying business which could be encouraged to decentralize?

To add insult to injury, latest office supply projections suggest that Central may soon even lose its pre-eminence as Hong Kong's major office concentration. The rival? the neighbouring one-time red-light district of Wanchai, where first-class office space at rock-bottom rents is already luring Central district tenants half a mile down the road.

Christopher Wood sees no speedy return to boom days

Property takes a tumble

THE HONG KONG property market remains in a state of considerable confusion, one year after the fall-out following the visit of British Prime Minister Margaret Thatcher gave it a seizure. The speculative bubble had already burst by early 1982 but the combination of political uncertainty and continuing massive oversupply since then has ensured that there is not going to be any speedy return to the boom days.

Valuers say that given normal supply and demand factors, they might expect to look for a recovery in prices by the beginning of 1985. Amid pervasive political uncertainty, which as one leading estate agent put it "affects property more than anything," that projection, however, looks decidedly optimistic.

The continuing imbalance between supply and demand is analysed in this year's Hong Kong Government property review, confirming that supply of accommodation exceeds effective demand in all sectors, resulting in a vaulting vacancy rate.

Moreover, the underlying trend is almost certainly understated in official figures owing to delays by developers in seeking occupancy permits. Projections for the volume of new completions in 1983 and 1984 have been noticeably reduced in most sectors, reflecting the harsh new market realities.

In the private residential sector, supply last year fell by 12 per cent below forecast levels but vacancies still increased by 7 per cent from 29,700 to 31,700 units. With 55,760 more units becoming available this year, the total supply is more than two and a half times *last year's* take-up of 21,900 units.

Drying-up

The picture is even worse in the luxury flats market, hit by the virtual drying-up of expatriate arrivals. There, the total supply estimated for 1983 is more than six times the annual take-ups of the past two years.

This will continue to place sustained pressure on rentals.

Turning to office space, 5.86m sq ft was vacant at the end of 1982 compared with a take-up rate during the year of 2.72m sq ft. Still coming on stream during 1983 is an estimated 6.24m sq ft of additional space. According to official statistics, the total amount of office space available in 1983 represents more than five times the annual average take-up rate between 1978-82.

The main feature of the industrial market is a large reduction in the amount of projected space coming on stream. Current estimates are for 7.9m sq ft in 1983, a 58 per cent drop from earlier official forecasts. The fall is due to the reduced take-up during the recession, postponement of new projects and by the present trend to change usage where possible from industrial to residential.

The total amount of space available this year will still be about twice the annual average take-up rate, reflecting the same pattern as other sectors.

With supply outstripping demand, values and rentals remain under pressure. There has been a virtual absence in some areas of recorded transactions since Mrs Thatcher's visit, for example, of luxury residential flats or prime office space. This latter sector has, however, seen considerable leasing activity. There is also demand for small residential flats catering for the rising middle class who have no way out of Hong Kong and industrial end-users attracted by space which is now selling close to building cost.

In the residential sector, small flats of 600-800 sq ft are selling for around HK$800 per sq ft, discounting the incentive packages offered to the purchaser. This can drop to more like $HK500 per sq ft for similar properties in the New Territories.

Because there is evident demand at this end of the market, an increasing number of developers are seeking to change their plans from large to medium-sized units. As this rationalisation increases, the fear must be that this section of the market will also become chronically oversupplied within two years.

At the luxury end of the residential market values are almost impossible to determine with the absence of transactions, though rentals probably have further to fall. They have already softened by around 20 to 25 per cent in the past six months.

Commercial values are again hard to determine, with a similar marked lack of transactions. In the heart of Hong Kong's central business district, values probably range between HK$2,200-2,500 per square foot, though there has scarcely been a transaction recorded to confirm this.

On the fringe areas of Central, where a large amount of space is coming on stream, deals have, however, been done. Thus, office space has recently been sold in the Far East Finance Centre, a gold-plated memento of the final death throes of the property boom, for just under HK$2,000 per square foot.

As an indicator of the precipitous drop in values, Bank of Tokyo paid HK$4,300 per square foot for space in the same building in February 1982. The bank was the lead manager of the syndicated loan put together to pay for construction of the building.

Estate agents note also that when deals are done even at present levels, the buyers of commercial space tend to be American or Japanese companies, rather than local Chinese who remain uneasy about investing in Hong Kong fixed assets.

Commercial rentals remain confused. Central rentals are now under pressure because of the big discounts offered to those prepared to move to new space on the Wanchai waterfront or to Tsimshatsui in Kowloon.

In both areas, in Wanchai, space in new buildings can be had for around HK$8-12 per square foot per month for a two-year lease, often with an option attached to buy at present prices. There is therefore considerable incentive to move for those paying HK$20 and more in the heart of Central.

The virtual landlord of Central, Hongkong Land, itself in tight financial condition, is having to offer generous packages to secure tenants. Space at HK$20 per sq ft is offered on a two year lease — with an incentive of a six-month rent free holiday attached.

In general terms most activity in the commercial market is restricted to leasing, with estate agents saying that the common pattern is for two-year leases with buy options at current prices.

End-user demand

In the industrial market, signs are beginning to appear of genuine end-user demand, at prices now equal or less than building cost. In the most heavily oversupplied areas factory space can go for HK$100-200 per sq ft — while rents are as low as HK$1.20 per sq ft in the most glutted area, Tuen Mun, where 22.2 per cent of the total stock is vacant.

Estate agents say that manufacturing concerns are inclined to be less concerned about the political risk than banks or investment houses. Manufacturing, it is argued, is more likely to survive any reassertion of Chinese sovereignty than, say, merchant banking.

One effect of present cheap prices is that companies are looking to set up in Hong Kong rather than opting for China's special economic zones. It is factors like this which, it is hoped, will persuade the Chinese leadership to take a pragmatic line in the negotiations over 1997.

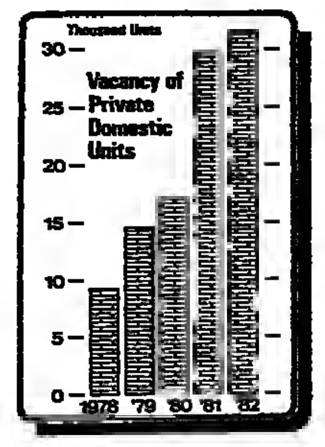
The property slump has resulted in a new phenomenon for Hong Kong—banks turned reluctant landlords. At the time of the bull market in property which ran from 1976 to the end of 1980, lending to property companies was the easy way for the swarm of new banks arriving in Hong Kong to write business.

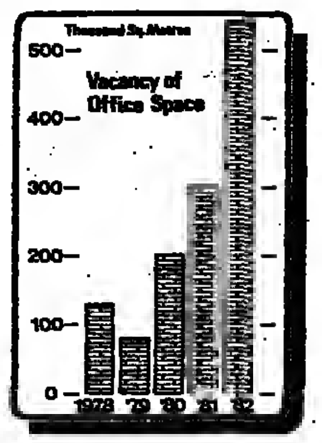
The result was indiscriminate lending. Now many banks find themselves encumbered with large miscellaneous property portfolios as security.

Plunging property values also have a direct impact on the Government's own finances. With its superior title to ownership of land in the colony—it is everybody's landlord—the Government was able to finance growing expenditure from 1978 onward primarily on the back of revenues from sales of leasehold interests.

That has now changed, though the Government retains its spending commitments and its land sales programme. But where a tender fails to meet the reserve price it will usually withdraw the site. This happened when the Victoria barracks site on the fringe of Central was put up for tender last November.

Many critics argued that, however low the tenders, the Government would have been better advised to accept the highest as any sign of local developers being prepared to make an investment in Hong Kong would have been bullish at a time when sentiment was unanimously pessimistic.





The downturn in property has also naturally taken its toll on former high flying property companies and the property-dominated stockmarket. With the former's stocks still being shunned, despite substantial provisions being made by many developers in their end-1982 accounts, there have been relatively few companies left to buy for those investors who take a bullish view of an upturn in economic activity.

Undoubtedly the most spectacular fall from grace has been that of Hongkong Land, the colony's largest property company and an associate of Jardine Matheson. (The two acquired mutual cross-shareholdings in 1980 to ward off a perceived Chinese takeover threat.)

Although the troubles of now bankrupt Eda Investments, and the struggling Carrian Investments, have received more publicity because of the nature of their collapse, Land's misfortunes are the more important because of its blue chip status. Riding high on its Central portfolio and assured rental earnings, Land embarked on a number of adventurous developments outside its traditional business at a time when shrewder minds like Li Ka-Shing of Cheung Kong (Hong Kong's most revered property magnate) were already going liquid.

Compared to Land, Hong Kong's other property giant, Cheung Kong, looks better set for another cycle, politics permitting. Despite a provision for 1982 of HK$459m against the drop in value of its land bank, which most analysts viewed as conservative, Cheung Kong remains soundly positioned thanks to Li Ka-Shing's defensive posture.

Overall, then, 1982 in the property market has been a year which not only developers, but bankers and civil servants will want to forget. Only the most conservative of property companies emerged unscratched —HK and Kowloon Wharf is perhaps the best example of this, with its portfolio of ungeared assets and cash in the bank.

Exchange Square: an ambitious bid

EXCHANGE SQUARE will be the flagship of the Hongkong Land Company's portfolio of prime commercial properties in Hong Kong's Central business district. Its site, then the prosaically-named inland lot 8668, was bought by Hongkong Land, one of the world's largest property companies, for a world record HK$4.76bn in February last year.

Construction work is now underway—at the rate of a floor every five-and-a-half days — to produce 1.6m sq ft of lettable space in three towers. The total cost of the development, including site, will be an estimated HK$6.75bn or one-third of HongKong Land's group net assets at year-end 1982.

A *flagship* it *may* be, but Exchange Square is a boat being pushed out on a receding tide. The local property market was already on a downturn when Hong Kong Land bid for the site in a sealed-tender auction, and it appears to have viewed the potential of the waterfront lot with considerably more optimism than competing bidders.

The underbid is rumoured to have been HK$3.1bn. If the Government were putting inland lot 8668 on the market today, it would attract bids nowhere near last year's levels—assuming any developer could be found willing to take on such a *major* project.

Work cut out

So much for 20-20 hindsight. Hongkong Land bid what it reckoned the site was worth, and now has its work cut out to make Exchange Square pay its way.

According to official statistics the office vacancy rate in Central at year-end was 12.5 per cent with record new supply projected for the current year. Current market conditions indicate prime Central rentals to be around HK$20 to HK$24 per sq ft per month, and under downward pressure. The first two of Exchange Square's three towers open their doors in 1985, when Hongkong Land wants virtual full tenancy at rental levels of HK$27 to HK$28.

The land company's strategy to pull in tenants at those rates is to take Exchange Square even further up-market than was originally conceived, with such luxury fittings as Spanish-cut Italian granite facings, reflective double-glazed glass, and tenant-controllable air conditioning.

The development will house Hong Kong's new unified Stock Exchange, a strong selling-point for the local financial community, while property consultants Jones Lang Wootton will push the project worldwide in a pitch boosting Hong Kong, the Hongkong Land Company, and ultimately Exchange Square.

Cash is tight at Hongkong Land. It would probably be a happy seller of the third and smallest tower of Exchange Square. Floors of the other towers could be bought out, too, a divergence from Hongkong Land's longstanding tenet that it is a landlord, not a trader, of properties.

Together with the Hongkong Bank's new headquarters in Queen's Road, Exchange Square will be the last product of the five-year building boom which has transformed the Central district skyline. For Hongkong Land, it will be the toughest test of the corporate view that there will always be enough tenants willing to pay top-dollar rents to be in the smartest building in town.

In current market conditions, Exchange Square is nothing if not ambitious. Hongkong Land must hope that the two-year lead-time on the project is long enough for the picture to brighten.

Robert Cottrell

THE RICH

Robert Cottrell

Spectacular rise of the Chinese tycoons

THE RICH, whatever F. Scott Fitzgerald may have said on the subject, are not like everybody else—at least not in Hong Kong. It would be truer to say that they are like nobody else. Not since the U.S. railroad barons have self-made men been able to make themselves so plutocratically rich as in Hong Kong over the past 30 years.

There is still big old British money in Hong Kong—the Swires of Swire Pacific, the Mardens of Wheelock Marden, the Keswicks of Jardine Matheson. Perhaps richer still among the non-Chinese is the Kadoorie family, once of Baghdad, later Shanghai and now Hong Kong. Family patriarch and life peer Lord Kadoorie was born in Hong Kong in 1899, a year after the Imperial China leased the new territories to Britain. Kadoorie interests span stakes in China Light and Power, Hong Kong's largest utility; the Hong Kong and Shanghai Hotels group, which includes the stately old Peninsula Hotel; and merchant bank Schroders and Chartered.

But the most spectacular success stories of recent years have been those of Hong Kong's Chinese tycoons, who have risen to challenge and in some cases overwhelm the Western establishment. At the top of any litany of such achievement must be Mr Li Ka-Shing, Mr Fung King-Hey and Sir Y. K. Pao.

Mr Li Ka-Shing was a man whose time had come when the Hong Kong property market boomed during the 1970s. He was already a wealthy man, with proven business acumen. General manager of a Hong Kong factory at the age of 20 in 1948, he moved in 1950 to set up his own light manufacturing business—called "Cheung Kong" (Long River). In 1958 he diversified into property with the purchase of a 12-storey building in the unglamorous district of North Point.

In 1972 Cheung Kong, by then a property concern, went public through the offer of a minority of Mr Li's shares, which were oversubscribed 65 times. The company survived the great bear market of 1973-74 and by the end of the decade was Hong Kong's fifth largest public company by market capitalisation, bigger than Jardine Matheson, bigger than Swire Pacific, valued by investors at HK$9bn and still controlled by Mr Li.

Cheung Kong was to rise further in the property peak of 1981 and fall sharply back through 1982-83 with the downturn. But it remains financially sound, with Mr Li's reputation further enhanced, if such were possible, by his decision to start reducing Cheung Kong's commitments at the top of the market.

Mr Li's is the triumph of scrupulous assiduity, a steady gainer from calculated risks. Behind Mr Fung King-Hey is a more dramatic rags-to-riches story, which ended in riches but could in its earlier stages have easily ended in rags.

Labourer

In 1939, at the age of 17, Mr Fung was a shipyard labourer earning 13 cents a day, with career prospects of a five-cent rise for each year of back-breaking work. Japanese wartime occupation of Hong Kong saw him return to China as an assistant to a money-changer in Canton. Mr Fung recognised then his quick grasp of business basics but an attempt at import-export and catering activities in 1945 yielded only modest results.

In 1946 Mr Fung decided to team up with friends to stake their modest capital in a trading play. They bought fish in Canton to sell in Taiwan. The journey was long and rough, the fish rotted. The would-be entrepreneurs mortgaged their only resource, the boat, and started a return journey to Hong Kong with a cargo of fruit. Another storm came, the rain rotted the fruit, and it was back to money-changing for Mr Fung.

Second time round, the markets went Mr Fung's way—and he took care to deal in less perishable commodities. In the 1950s the money-changer diversified into property. In 1969 he started a stock-broking firm, Sun Hung Kai Securities, aiming a the "man-in-the-street," the small investor who might fight shy of bigger brokers. In 1970 Sung Hung Kai spawned a finance company, and Mr Fung was in the big-time.

Even as a big-league player Sun Hung Kai has had its ups and downs. The finance company—now a bank—suffered an unfounded run in 1978. The stockbroking arm reported a loss for 1982.

But Mr Fung, like Mr Li, has enhanced his reputation as a man who recognises the tops of markets as well as the bottoms. In May 1982 he swapped minority stakes in his brokerage firm and bank for a 4 per cent stake in Merrill Lynch, making the U.S. firm a minority partner in Sung Hung Kai Securities and Sun Hung Kai Bank. During the remainder of 1982 Sung Hung Kai shares halved in market value while those of Merrill Lynch doubled. Profits on that deal helped Mr Fung bail out an overextended property associate.

Sir Y. K. Pao is Hong Kong's best-known businessman internationally, having maintained a high public profile relative to the little-seen Mr Li and Mr Fung. Ships, like property, afford massive gearing opportunities, enabling former Shanghai banker Sir Y. K. to put together under the aegis of his World-Wide group the largest shipping fleet in the world. The fleet has a publicly quoted element but most of it is held through labyrinthine private companies.

Sir Y. K. appears to have the ear of Britain's Prime Minister Mrs Margaret Thatcher to a degree which British diplomats envy. He accompanied her party on its visit to Peking in September last year, a factor which appeared to cause some friction among members of the official entourage.

Each of these men is a billionaire—though in what currency might be a matter for debate. Even their personal shareholdings in their own Hong Kong quoted companies cannot be verified, as the territory has no share-stake disclosure law. But each has demonstrated a capacity for financing very big deals on a personal account basis — Sir Y. K. in his stalking of the Hong Kong Wharf Company, Mr Fung King-Hey in refinancing troubled property group Sun King Fung Development, Mr Li Ka-Shing in buying and redeveloping his corporate headquarters in Hong Kong, China Building.

So much for the plutocrats. But what of the expatriates, the salarymen who come to

Sir Y. K. Pao, Hong Kong's best-known businessman, at his World-Wide group headquarters.

Hong Kong in search of fortune if not fame? The short answer is that they too can become rich, though not beyond the dreams of avarice—not even beyond the dreams of the average partner in a London stockbroking firm.

Wages are high but so are rents—and the atmosphere of Hong Kong leisure is conducive to a far higher level of day-to-day expenditure than would be typical in London. How many young London stockbrokers would regularly opt for the prices and service of a five-star hotel bar as the place to unwind over a drink after work? Yet the Captain's Bar of the Mandarin Hotel is where many of Hong Kong's pinstriped gents repair after six o'clock.

Bonuses large

Hong Kong offers, for most expatriates, a standard of living beyond that possible at home. Basic pay is not particularly generous but bonuses can be large and benefits too. Most companies provide expatriate employees with flats as part of their remuneration package, a benefit which is often worth more than basic salary. A managerial-level expatriate in his 30s or 40s with one of the larger Hong Kong companies might be earning HK$15,000 to 25,000 monthly but be provided with a flat whose market rent might be HK$25,000 to 30,000.

Wages tend to be higher in the financial sector. An established stockbroker might make HK$40,000 to 50,000 monthly, again with rent-free flat provided. Some top brokers' salaries, including bonus, are reputed to reach HK$1m in a reasonable year, a figure which top fund managers may also equal.

At the corporate director level basic salaries may appear surprisingly low — perhaps HK$30,000 monthly. But they will be supplemented by a system which can yield a multiple of basic salary as bonus. Such additional payments may be made on a discretionary basis, reinforcing managerial authority and employee subordination throughout the company.

Expatriates who have not worked or drunk themselves to death by their mid-50s will find Hong Kong a place which encourages early retirement, usually at 55. Pension schemes are rare. More usual is a provident fund which will disgorge on retirement a lump sum of perhaps HK$1m to 1.5m to the long-serving employee.

It is then, with the children through public school and the mortgage paid off, that the expatriate can really reap the rewards of his working life, boring his neighbours in Surrey with endless recollections of having "seen a thing or two out East," and extolling the virtues of a 15 per cent ceiling on income tax.

THE POOR

A Special Correspondent

Cracks in social fabric start to show

HONG KONG'S headlines were captured in spring by news that the territory's unemployment rate had topped 5 per cent—the highest level since the recession of the early 1970s. The figure—since down to 4.4 per cent—may seem modest to visiting Western businessmen and tourists, but it must be read in the context of supporting social welfare systems radically more spartan than those of developed nations, and likely to chill non-Asian onlookers.

The dynamism of Hong Kong's business environment has depended on a large labour force willing to work long hard hours for, by the standards of developed nations, low pay. The Government eschews the high taxes and high expenditure associated with welfare states, offering only the most basic necessary aid.

For those people cleared by the welfare system for benefits, the rewards are low: social security to the unemployed is HK$450 a month per individual; a severe disability allowance is HK$450 per month.

The exception to this policy has been in public housing, where massive investment has been made over the past 10 years. It should be noted, however, that to offset such large capital expenditure, the Government draws large capital revenues from its position as monopoly freeholder of land, in which it sells leasehold interests.

Squatter huts

Despite the public housing drive there still remain an estimated half-million people living in squatter huts, 120,000 in marginally better temporary housing areas and 250,000 in "mark one" and "mark two" public housing estates, where families often occupy a 110 sq ft room without private toilet, kitchen or bathroom.

The willingness of Hong Kong people to take two or more jobs at once to make ends meet, and the Chinese family tradition of supporting the old, are how the poor help fend for themselves. But with economic recession having bitten into political nervousness in Hong Kong, cracks in the social fabric are beginning to show.

First to suffer have been the old and infirm. A leading social worker said recently that the suicide rate among elderly people had leapt alarmingly, because increasing "westernisation" of family values meant that the old could rely less on the young in hard times.

The director of the Hong Kong Family Welfare Society, Mr Tom Mulvey, has noted the absence of a service to counsel elderly people. He was commenting on a report by local Samaritans showing a 20 per cent increase in suicides among people aged between 60 and 69 (who are too young to qualify for an old age pension. They must be 70 to receive the HK$225 per month).

Mr Mulvey and the Samaritans said that these old people preferred death to their sense of neglect by society and futility of life. More social welfare department officers, they said, should be provided to counsel at centres for the elderly.

According to claims by the Hong Kong Council of Social Service—an umbrella organisation for the principal voluntary agencies operating social services with mainly government funds—the elderly are actually in danger of suffering cutbacks. The council has claimed that projects including social and multi-service centres for the elderly, previously classed as "essential" by government, were now to be given 30 per cent less money. At least one-third of social agencies running such centres announced that they will shelve their expansion plans because of the cutback in funds.

Changes in the way the Government hands out its cash will also deplete services to the young, says the council. Instead of day care centres being fully supported as in the past and most parents paying HK$134 a month and so both being able to work, fees have now been increased to about HK$400, making the centres largely self-supporting.

Poor parents claim help with fees from the Government on a sliding scale, but most have ended up paying out more, say social workers.

"Judging from the percentage of children paying the full fee, better-off families are filling up places and that means poorer children are being left behind," said Miss Alice Yuk, chairman of the HKCSS child care centres committee. "The centres should be open to parents as a right as in most other countries, not run as a welfare service," said Miss Yuk.

Social workers fear that the higher fees will mean mothers or older children having to look after youngsters, creating more daily tension in overcrowded homes, leading to more child abuse.

"Baby battering" earlier this year caused a furore when the social welfare department absolved itself from blame for the death of a four-year-old girl under its protection.

She died from a beating by her mother, who had been known to the authorities as a child abuser for two years. One year before the child's death the mother had even been placed under supervision and fined for cruelty to the girl. Notwithstanding this, it was said the four-year-old had continued to suffer severe beating.

Child abuse

Voluntary workers in child abuse do not blame the SWD's social workers for laxness in the case. Instead, they blame lack of staff to cope with the workload.

The SWD is 119 social workers short of its total target staff level and admits the best maximum workload it can aim for at the moment is 70 cases per worker. Some, it concedes carry caseloads in excess of 100.

The staff shortage in social welfare is the greatest problem facing the service. If the number of vacant posts in the voluntary agencies is added to the SWD's own, the total is 500. This is expected to soar to a shortfall of 2,000 graduate and non-graduate social workers by the end of the decade.

The shortfall has been made worse by a government decision to reduce starting salaries for social work assistants by HK$700 a month from this July and to hire unqualified people to the ranks. This has angered existing workers who already leave the service at a rate of 12 per cent a year—which is faster than new officers are being recruited.

Poor working conditions and pay, lack of promotion prospects and the heavy workload has been blamed for the high turnover.

The Chinese are such inveterate gamblers that horseracing remains one of the few recession-free industries

Record betting turnover regardless of the going

BY HONG KONG's own high standards the 1982-83 winter was a dreadful one. More rain than the territory normally gets in the wet season compounded the misery of world recession and political fears over the 1997 question.

But for the Royal Hong Kong Jockey Club (RHKJC), the sole legal administrator of racing and betting in the colony, that weather brought inconvenience, and more sand racing than normal but little monetary disappointment. Such is the betting fever of the Chinese population the club broke all records in a year when any other business was happy to stand still.

Total turnover for the season — September to May — was HK$12.2bn wagered on only 63 meetings. For the statistically minded, that represents a bet of HK$35 per meeting by every man, woman and child in Hong Kong.

Perhaps it was appropriate for this wet year that the last meeting of the season was transferred from the lush turf track at Happy Valley to the tight sand surface. In most other racing centres the meeting would have been abandoned, not so much because racing was unsafe but simply because the most devout horse lover would have questioned the wisdom of attending on such a miserable day.

Packed stands

As it was, the stands at the Valley were packed and the 10-race card broke all records for a single meeting. On the last race alone, a modest affair for the lower classes, punters placed HK$25m in bets on the quinella (a form of combination betting) alone and cheered as a 70-year-old trainer having his final runner won the event from an 11-year old horse also being compulsorily retired after the race. Hong Kong racing can be criticised on many fronts but never of the score of enthusiasm.

The RHKJC monopoly on racing is a position which has long given the club an awesome power base. It is arguably the most influential body in Hong Kong, certainly ranking alongside the leading business houses such as Jardine Matheson and the Hong Kong and Shanghai Banking Corporation. Its chairman is Michael Sandberg, chairman of the bank, and its list of stewards is a who's who of local business, both Chinese and expatriate.

Racing in Hong Kong began under the Jardine influence almost 150 years ago at Happy Valley, a course which remains tight to the racing purist but an irresistible attraction to tourists because it sits snuggled amid the hustle of Hong Kong life on the island.

The Shatin Course, a much roomier track built on reclaimed land not far from the Chinese border, was opened in 1978 and has since shared the meetings. Both courses also have sand tracks which host scheduled race meetings but also fill the gap when the weather takes its toll of the grass.

Perhaps the biggest problem for the racing administrators is that, given the local love of gambling, racing is open to all types of abuse by the unsavoury. It is a great credit to the club that known manipulation of the sport, its trainers and jockeys is no more than in other racing countries.

Stories abound of underworld fixing of racing; local love of superstition and omen ensures that any well told story has a ready audience but the facts would seem to point to a sport professionally run, employing some of the world's leading jockeys and trainers.

Probably the greatest criticism of Hong Kong racing over the years has been the standard of the horses themselves, normally lowly rated animals imported from Britain, Australia and New Zealand. While that standard has been rapidly improved in recent years by allowing owners to import horses privately, it remains true today that few would win any more than second or third rate events in their home countries.

But provided there is a competitive level, does it really cause concern in a sport which needs gambling to survive if the animals are inferior, so long as they are equally inferior?

For this reason, racing in Hong Kong is conducted under a class system with horses rising or dropping a class on performance, the handicaps changing from race to race under a normal system.

The biggest boon to the sport here has been the influx of top trainers and jockeys, lured to Hong Kong by the high prize money (high, considering the horses would find trouble paying for their feed at home) and reportedly higher "tips" from grateful owners.

All the world's top jockeys have ridden in Hong Kong — some like Eddery, Taylor, Rouse, Mercer and Piggott on regular occasions. The club will allow any "champion" jockey to ride freelance but all others need to be on a signed retainer from a stable. This system has allowed for the development of a Chinese jockey programme which has in the past ten years produced some highly capable riders.

At the top

Of the regulars here, Gary Moore — son of the leading trainer George, who will be remembered as the finest post-war jockey to come from Australia—has been at or near the top for many seasons. He capped a great year in the 1981-82 season by winning the local premiership and skipping off to France to ride the winner of the Prix de l'Arc de Triomphe. Gary's brother-in-law, Phillippe Pacquet, is now under retainer to Derek Kent in Hong Kong, two names which will be well known to racing followers in Europe.

Most other expatriate jockeys are Australians, some of whom have been part of Hong Kong racing for many years and show no inclination to return to what would appear a far more lucrative business at home.

Such is the side of racing you would expect to read in the annual report of the Jockey Club. But what could you expect if you were suddenly transported from the rolling hills of Ascot to a normal Saturday meeting in Hong Kong.

Apart from a full house at virtually every meeting, the first impression a visitor would have would be of the lack of any course commentary during or after the running of a race. Instead of the normal buzz and chatter, the action all takes place around the betting windows. A race will begin in almost total calm, the noise not rising until the 200m post.

From that point, however, there is the tremendous roar, not only for the winner but for the place-getters which can form an important part in the many exotic bets so favoured by the Chinese. Save for the very special occasion you will also not hear the applause for horse or jockey. A winning ticket is the only acceptable reason for conversation, otherwise it is on to the next race.

For the winning owners it is a rush down to the saddling enclosure for a photograph, hopefully later to be seen in the media. Herein lies the other great attraction to the Chinese of being part of racing. The social side is very much alive and well, not so much with the frills and finery of a week-end at Ascot, not with the glamour of a Melbourne Cup week, but simply the pleasure of showing to friends and business acquaintances that you produced a winner.

Leading businessmen in Hong Kong have to be part of the racing season. Not only is a certain amount of business conducted that way on a Saturday but the contacts made and cemented through racing are as important to the Chinese as a relationship built up in the more normal houses of industry.

Similarly, the owner who can pass on a winning tip to an associate is a man of substance and one to be trusted. It is quite an honour to be given such information from an owner.

Form reversals

It is also a great help because picking a winner in Hong Kong is no easy task given the propensity for startling form reversals. Partly because the quality of horse is inferior, it is rare to see one that wins several races in succession and common to see one with no form backed to win millions.

The Chinese form book is often the totalisator board, the only form of betting in Hong Kong. The calm of pre-race discussion is usually only broken by the "a-a-h-s" of the price of a particular horse tumbles from 10-1 to 3-1. Such crowd as the price of a particular horse tumbles from 10-1 to 3-1. Such price movements are not unusual even if they do require millions of dollars. These movements are also the signal to the crowds to rush off and put that particular horse in their quinella bets.

It is estimated that in Hong Kong the equivalent of as much as 75 per cent of the money invested through the Jockey Club is placed in bets with illegal off-course bookmakers. Certainly this form of gambling does exist but it is impossible to make an accurate assessment of its depth. Along with the stories of the illegal bookmaker, however, go others of the influence exerted over trainers and jockeys to "pull" horses. That this goes on from time to time is not doubted but it is equally likely that many of the stories are exaggerated for the sake of the tale.

What probably worries the Jockey Club more is the trade in membership. These days a potential member of the club must be nominated by a voting member, of which there are only 200. These 200 can propose a maximum of two new members per season, so there is great pressure for those two available spots each year.

Whatever the truth behind such stories, however, they have little effect on the business of racing so that the club will continue assured of large surpluses like the HK$500m secured from the season just ended.

Those profits go not only to the continuing management of racing but increasingly into community projects, an investment programme carefully monitored and used as the rationale for allowing a monopoly to continue.

Jim Walker

Wilfred Newton, new chairman of the MTR Corporation: tough task of keeping on the profitability track.

The Rock Island Line Stage 3

Hong Kong's Mass Transit Railway (MTR) has a new station-master — Mr Wilfred Newton, former managing director of Turner and Newall, who took over as chairman of the MTR Corporation on May 1. The government owns the MTR, but tells it to behave like a commercial corporation, profits included.

Mr Newton faces the tough task of nosing the MTR towards sustained profitability while its capital expenditure and associated debts rise, local interest rates threaten to rise too, and property developments intended to subsidise construction of the MTR's new Island line are stalled.

The Island line is the third leg of the MTR, and the final stage of its present expansion. The two existing lines already carry more than 1m passengers daily, linking the central business district on Hong Kong Island with the urban areas of Kowloon. The Island line will run beneath the densely-packed strip of commercial and residential development on the north shore of Hong Kong Island, and is due to be operational in 1985-86.

At the year end 1982, the MTR Corporation showed loans of HK$ 7.7bn and liabilities of HK$ 3.5bn supported by government equity of HK$ 3.8bn. It will need a further HK$ 7bn to complete the Island line, with debt projected to peak in 1986 and be fully retired 10 years later.

Hopes of financing 40 per cent of the HK$11bn cost of the Island line through property development now appear at best uncertain although the corporation has cash and bank guarantees covering HK$1bn in down payments from the private-sector consortium which hoped to build eight major property developments on top of the new MTR stations in joint-venture with the MTR Corporation. But in today's depressed local property market, it is doubtful whether such development would be profitable.

The Government has given the MTR and its partners a breather by delaying the "granting" of the sites—when a premium has to be paid to the Government—until the outlook is clearer.

Mr Newton says that the property developments—conceived under his predecessor Mr Norman Thompson—are an "imaginative" approach to transport finance, and that he does not mind being expected to run a sizeable property company as well as an underground railway.

He is also pleased to note that he inherits an operation which early in its life opted for fixed-price contracts in Hong Kong dollars, mainly Hong Kong dollar borrowings, and fixed-interest credit where available. Given the plunge in the value of the local currency over the past year, some of the MTR's contractors may be feeling rather less happy. But, as far as the MTR is concerned, the Island line will be arriving on schedule, and on budget.

Robert Cottrell

SHIPPING

Caution rules shipowners' waves

HONG KONG'S shipowners operate some of the largest and most profitable fleets in the world. But the rich and discreet men who run the shipping empires are not flamboyant and rarely figure in the gossip columns. Unlike some of the Greeks who built up shipping fortunes in the post-war years, they are as jealous of their personal privacy as of their financial secrets.

Not that shipping is one of the world's most glamorous industries these days. Few shipping companies have been able to make money at a time of dwindling cargoes and huge over-capacity resulting from previous heavy ordering. Nor do many in the industry see much chance of sustained improvement for some time.

Hong Kong's owners are as cautious as any. Financial caution, in fact, is one of the reasons why they have survived relatively well in the prolonged shipping recession. The head of the biggest fleet, Sir Y. K. Pao, is generally regarded as having the instincts of a banker rather than a dyed-in-the-wool shipowner.

The Colony's shipowners control more than 60m deadweight tons, mostly sailing under Liberian, Panamanian or other flags of convenience. Of this total around 16m dwt is in the hands of companies headed by Sir Y. K. Pao, who began with a small coal-burning freighter purchased for U.S.$770,000 in 1955.

Another 8m dwt or so is controlled by the Tung family. Both the Tung and Pao fleets have contracted in the past few years. But investment, now halted, has been heavy in ships to replace older tonnage. The third biggest fleet of over 3m dwt is run by Wah Kwong.

With its out-and-out laissez faire attitudes, Hong Kong is a virtual paradise for businessmen. Taxes are low and official restrictions are few. Shipping, like other industries, has clearly benefited. Even amid the latest uncertainty about the Colony's future, shipowners take comfort in the fact that their assets are movable.

"Shipping people are the luckiest of all," commented the ebullient Mr Frank Chao, head of Wah Kwong's shipping side. Even so, he expressed the hope that a solution would be found for Hong Kong's future—"it will be a great pity if China takes back Hong Kong. I think it will be OK but I can't guarantee nothing will go wrong."

Whatever the longer term future of Hong Kong, owners are not too cheerful about immediate prospects, though freight rates have risen this year. "This malaise may go on for quite a long time," said Dr Helmut Sohmen, a director of World International and the Austrian son-in-law of its chairman, Sir Y. K. Pao. Despite widespread reductions in world shipbuilding capacity, he thought it was still too large. "Scrapping is OK but people are still building new ships."

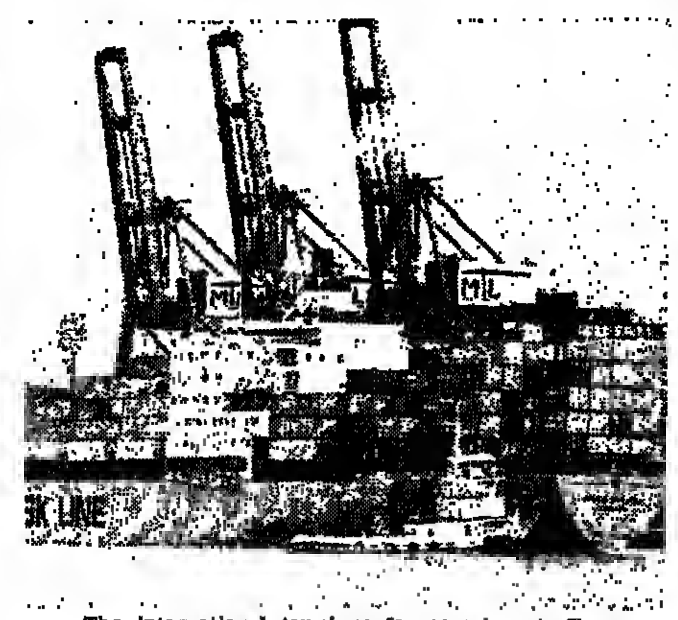
The shipping companies do not generally set the highly volatile local stock market alight with their results or deals. The industry is a large one and companies reveal only those financial results they have to. Moreover, analysis of the sector is made harder by the complicated intertwining of private and quoted interests.

But a couple of recent situations have raised investors' eyebrows. Amid the struggles of the Carrian group to survive its massive indebtedness after a hectic period of growth in property and other areas, the Grand Marine Holdings (GMH) subsidiary has sold off most of its fleet to bring down its own borrowings.

Deferral talks

Carrian owns a majority stake in GHM and rapidly shot it up into the position of Hong Kong's fourth largest fleet before the big sell-off began. Twenty ships were sold back to the original owners, the Li family. New vessels had been ordered, in the UK, East Germany and Spain. Talks on charters and delivery deferrals have been taking place.

The other piece of grim news has come from Wheelock Maritime, the once expansion-minded subsidiary of trading group Wheelock Marden. It reported a net loss for last year of HK$863,000 (U.S.$124,000) against a profit the year before of HK$86m. It passed its final dividend and was forced to seek a U.S.$12m loan from the group.



The international terminus for container traffic.

The shipping company has raised money from ship sales and has had to delay deliveries of some of its new ships. For some weeks Hong Kong had been rife with rumours about how bad the Wheelock Maritime results might be.

Yet the results of the big three shipping concerns have been far from sensational. Wah Kwong, for instance, which specialises in bulk and car carriers, turned in net profits of HK$157m for last year. This was 9 per cent higher than the 1981 result and exactly as forecast. Orient Overseas (Holdings), controlled by the Tung family—now headed by Mr C. H. Tung after the death of his father, C. Y. Tung, last year—showed a slightly lower profit of HK$166m, down by 4.5 per cent.

Orient Overseas has interests in container terminals, such as Walton at Felixstowe in the UK, offshore activities and transport. It owns the big British shipping and offshore group of Furness Withy, which it took over for £113m in 1980. Within the Tung group the emphasis on the shipping side is on container vessels.

Profits gain

As for World International, whose tonnage is split roughly between oil tankers and dry cargo ships, net profits showed a 7 per cent gain to HK$476m in the year to end-March 1983, after extraordinary debits. A boost in the property and transport interests aided the overall performance.

All of the big Hong Kong shipowning groups expect it to be some time before world economies, led by the U.S., pick up sufficiently to improve earnings greatly in the sector. They have mostly stopped ordering ships—at the end of 1981, Sir Y. K. Pao had US$850m of ships on order and Wah Kwong US$460m—and settled down to wait for a real upturn.

Mr Chao, for example, reckons that the heavy ordering of bulk carriers by Sanko Steamship of Japan will delay any recovery, though Sanko says it is also shedding some older tonnage. Other owners, notably Greeks, have also stepped into the market to buy vessels at current low prices.

When and how the recovery does finally come, the future of the Hong Kong shipping scene is likely to be considerably different in a few years time. "Over the past five years or so, the Hong Kong shipowners have come of age," said Mr Anthony Hardy, chairman of Wallem, the Hong Kong ship management group.

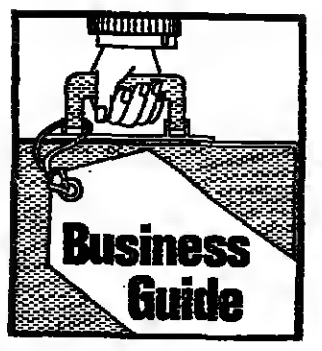
"They can no longer hide behind the skirts of their Japanese nannies," he told a seminar in Houston. "They are out in the open and are vulnerable." What he meant was that reliance on secure long-term contracts with Japan—including the favourable "*shikumisen*" or switchback financial arrangements which benefited such owners as Sir Y. K. Pao in their dealings with the Japanese—is now a thing of the past.

These days it is the Chinese who appear to offer a more attractive business prospect. The profitable Hong Kong shipping formula—"long-term charters with full payout and no risk"—is now harder to achieve, according to Mr Hardy.

International shipping bankers based in the Colony also emphasise that local shipowners will now have to be more flexible, entering into joint ventures with companies in Europe and moving away from a dependence on extended charter links with firm customers.

Flexibility has been one of the great strengths of the Colony's shipowners. Mr Hardy referred to their "sensitive awareness of changing circumstances." There is, however, another side to the coin. In Hong Kong, said Mr Sohmen, "if a shipowner loses his balance, there is *nobody* to help. He falls very hard. That leads to caution and an acuteness that is not found in other countries."

Andrew Fisher



· Michelle Misquitta

Tramway to the scenic splendours of Victoria Heights.

HOTELS

THE HONG KONG tourist association lists 47 hotels in the territory with a total of 17,415 rooms and 32,964 beds as at the end of 1982. Hong Kong's top *hotels rank among the best* in the world, boasting standards of service superior to those found in Europe or the U.S.

For a visitor an important consideration may be whether his business contacts are on Hong Kong Island or on Kowloon. Travel between the two parts of the territory may be an extra inconvenience adding time or money to the day's work: ferries are scenic but slow—the Mass Transit Railway (HK's subway) is speedy but frequently crowded—cars and taxis cross through the harbour tunnel, entrances to which are congested at rush-hours.

Bankers or those dealing with government organisations (with the notable exception of the trade, industry and customs departments which are in Kow*loom) will* probably need to be located on Hong Kong Island. Businessmen who have to make trips to the factories may prefer to be on Kowloon side.

Visitors interested in shopping may also choose Kowloon's so-called golden mile or Causeway Bay district on Hong Kong Island.

Here is a selection of Hong Kong's hotels (prices and details as at June 1).

HONG KONG ISLAND:

Hongkong Hilton Hotel, 2 Queen's Road, Central, HK. Telephone 5: 233111; Telex: 73355 HILTN HX; cable: HILTELS Hong Kong. Total rooms: 822 (including 46 suites).

Room rates range from HK$440 to 630 single occupancy, HK$500 to 690 for twin; sultes cost from HK$750 to 2,500 for the presidential suite. Corporate rates are available. Business facilities include a fully equipped executive centre.

Hotel Furama Inter-Continental, 1 Connaught Road, Central, HK. Telephone 5: 255111, Telex: 73081 Furan Hx; cable: Furan Hx Hong Kong. Total rooms: 571 (including 13 suites).

Single rooms range from HK$540 to 700. Donbles from HK$600 to 760, suites cost from HK$1,300 to 3,500 for the royal suite; 25 per cent discount available for commercial accounts. Business centre. The botel is planning a new facility in which sixth floor rooms can be offices by day with their own telephones and bedrooms hy night.

The Mandarin, Connaught Road, Central, Hong Kong. Telephone 5: 220111; Telex: 73653 HX; Cable: Mandarin Hongkong. Total rooms: 550 (including 60 suites). Single rooms range from HK$625 to 925; douhle rooms from HK$645 to 945; suites cost from HK$1,550 to the *Mandarin* suite at HK$5.500.

Corporate rates availahle at discounts of 10 to 18 per cent. Business centre.

KOWLOON:

Golden Mile Holiday Inn HK, 50 Nathan Road, Kowloon, Hong Kong. Telephone 3: 693111; Telex: 56332 HX; Cahle: Holiday Inn. Total rooms: 600.

Singla rooms range from HK$400 to 520; twins from HK$440 to 560; suites cost from HK$950 to 2,500 for the *Presidential* suite. 20 per cent InnCorporate discounts available. Secretarial service.

Function rooms include crystal hallroom which holds 600 for dinner or 1,000 theatre style and 1,200 for cocktails.

Harbour View Holiday Inn, HK, 70 Mody Road, East Tsimshatsui, Kowloon, Hong Kong. Telephone 3: 7215161; Telex: 38670 HX; Cable: Innview. Total rooms 600. Single rooms cost from HK$420 to 640; doubles from HK$460 to 690; sultes range from HK$1,250 to HK$4,500 for the presidential suite. 20 per cent InnCorporate *discount* available. Executive club includes boardroom and other facilities.

The Hongkong Hotel, 3 Canton Road, Kowloon, Hong Kong. Telephone 3: 676011; Telex: 73838 Honho HX; Cable: Honghotel Hongkong. Total rooms 790 (including 88 suites). Single rooms cost HK$270 to 640; douhle rooms range from H$410 to 660; suites cost from HK$700 to 1650. 25 per cent summer season discount available on all rooms from June to August. Corporate discounts available. Business centre. Three function rooms.

The Marco Polo Hotel, Harbonr City, Canton Road, Kowloon, Hong Kong. Telephone 3: 7215111; Telex: 40077, MPHK HX; Cable: Marpolotel. Total rooms 441 (including 56 suites). Single occupancy HK$360 to 420; double occupancy HK$400 to 460; suites HK$620 to 660. Summer discounts of 25 per cent from 1 June to 31 August. Corporate discounts available.

The Peninsula, Salisbury Road, Kowloon, Hong Kong. Telephone 3: 666251; Telex: 43821 PEN HX; Cahle: Penhote Hongkong. Total rooms 210. Rooms cost from HK$640 to 960, irrespective of single or doubla occupancy. Suites range from HK$1,500 to 2,400. Business corner.

Regal Meridien Airport Hotel, San Po Road, Kowloon, Hong Kong. Telephone 3: 7180333; telex: 40950 HX; cable: Homra Hongkong. Total rooms 332 (including 48 suites). Single rooms cost from HK$300 to HK$375; doubles from HK$330 to HK$405; suites range from HK$550 upwards. Disconnts: summer rates until Septemher 15.

Hotel Regal Meridien Hong Kong, 71, Mody Road, Kowloon, Hong Kong. Telephone 3: 7221818; telex: 40955 Homro HX; cable: Homro Hongkong. Total rooms 592 (including 37 suites). Single rooma cost from HK$450 to HK$550; doubles from HK$515 to HK$650; suites from HK$750 to HK$3,000 for the regal suite. Discounts: commercial accounts, average 30 per cent.

The Regent, Salishury Road, Kowloon, Hong Kong. Telephone 3: 7211211; telex 37134 Reg HX; cahle: Regentel Hongkong. Total rooms 602 (including 58 suites). Rooms cost from HK$560 to HK$900 for single or douhle occupancy; suites range from HK$1,000 to HK$1,300. Discounts: corporate discount of 15 per cent is available. Business centre. The Regent hallroom is Hong Kong's largeat with 10,000 sq ft. The hotel bas six other function rooms.

Shangri-La Hotel, 64 Mody Road, Kowloon, Hong Kong. Telephone 3: 7212111; Telex: 36718 Shala HX. Total rooms 719 (including 48 suites). Single rooms cost from HK$525 to 800; doubles from HK$575 to 850; suites cost from HK$1,250 to 5,000. The Shangri-La corporate programme offers discounts of 15 to 30 per cent.

RESTAURANTS

Hong Kong offers prohably *Asia's widest variety of restaurants.* Cuisine ranges from standard Cantonese fare througb all kinds of Chinese regional cooking to Indian, Indonesian, Japanese, Korean, Malaysian, Thai, Vletnamese food as well as western dishes of high standard.

The top-class botels boast resident chefs with accomplished European experience.

For those in a hurry or with less discriminating palates *Hong Kong bas* international brand-name fast food outlets. Most of the first-class hotels have excellent western and Chinese restaurants. In Causeway Bay there is an area around Food Street specialising in restaurants where many varieties of Chinese cuisine and most Asian fare can be found within the space of 100 yards. Most restaurants are open daily for hoth lunch and dinner. Here is a selection of businessmen's favourites:

Hong Kong Island:

Benkay Japanese restaurant, Gloucester Tower, the Landmark. Tel: 5:213344.

The Galley Restaurant, Basement B12, Shopping Arcade, Connaught Centre. Tel: 5:263061/5:262510.

Godown Restaurant, Sutherland House, Basement. Has music for dancing every night, and Dixieland jazz on Wednesday nights. Tel: 5:221608.

Hilton Grill, Hilton Hotel, Lohby Floor. Tel: 5:233111

Jimmy's Kitchen, South China Building, Wyndham Street. Tel: 5:265293.

Kowloon:

Au Trou Normand, Ground Floor, 6, Carnarvon Road, Taimshatsui, Kowloon. Tel: 3:668754/3:7226618.

Gaddi's Restaurant, the Peninsula. Tel: 3:666251.

Jimmy'a Kitchen, Kowloon Centre. Tel: 3:684027.

Important business contacts:

Hong Kong Trade Development Council: 3rd and 4th floor, Connaught Centre, Connaught Road, Central, Hong Kong. Tel: 5:2679222. Trade inquiries section: 5:2679362. Telex: 73595 Conhk Hx. Cahle: Conotrad HK. The Trade Development Council has offices in many countries ahroad including the UK. London office: Enserch House, 8, St James's Square, London SW1Y 4JZ; tel. (01-930 7955); telex 916923

Japan (Tokyo): Toho Twin Tower Building, 4th floor, 1-5-2 Yurakucho, Chiyoda-Ku, Tokyo 100; tel (03), 502351; telex, J 26917 HKTDCT.

West Germany (Frankfurt): Ulmenstrasse 49, D6000 Frankfurt Main Frg; tel (0611), 721655; telex, 414705 Cofra D.

The Department of Industry: 14th floor, Ocean Centre, Canton Road, Tsimshatsui, Kowloon; tel, 3:7222242/3:7222333; telex, 75126 CND1 HX. The Department has offices for industrial promotion in UK—Hong Kong Industrial Promotion Office, 6, Grafton Road, London W1X 3LB; tel (01), 499 9821; telex, 05128404 HKGovt G.

Japan: Hong Kong Industrial Promotion Office, 32, Kowa Building, 5-2-32 Minami Azabu 5, Chome, Minato-Ku, Tokyo; tel (03), 4468111; telex, 02425122 HKGITOJ.

Hong Kong General Chamber of Commerce: 902 Swire House, Central Hong Kong; tel, 237177; telex, 83535 TRIND HX; cahle, Chambercom.

American Chamber of Commerce in Hong Kong: Swire House, Central Hong Kong; tel, 5:260165/5:259215; telex, 83664 AMCC HX.

Hong Kong Japanese Chamber of Commerce and Industry, 38th floor, Hennessy Centre, Hennessy Road, Causeway Bay, Hong Kong; tel, 5:776129/5:776252.

Hong Kong Tourist Association: 32nd and 35th Floors, Connaught Centre, 1, Conaught Place Central; tel: 5:244191.

Transport: Hong Kong, a small territory with a large number of islands, has many different forms of transport: cars, taxis, buses, mini-buses, trams, plus a unique peak tram cahle car, underground and above ground railways, ferries, wallab wallahs (small private ferry boats), hydrofoils, jetfoils, even a small number of rickshaws still operate.

Taxi operators, bowever, have applled for a 30 per cent fare rise. In addition, a passenger *has to pay HK$10 extra for a* cross harbour ride. A trip from the airport to Central district on Hong Kong Island would cost about HK$25 plus HK$10 *harbour* tunnel surcharge, but this may vary with conditions of traffic.

A trip to a Kowloon hotel from the airport would be considershly cheaper. Hotel limousines are considerably more expensive, though the passenger does not bave to wait in taxi queues.

Lastly, visitors to Hong Kong are warned that the new airport departure tax is now HK$100, per passenger, payahle at the airline counter at check-in.

FOOD

Willie Mark

Paradise for eating out

THE POLITICAL changes in mainland China in 1949 brought to Hong Kong many eminent chefs from different parts of China. With the imported expertise, Hong Kong thrived in tha following 34 years as the confluence of the different schools of Chinese cuiaine.

In becoming a unique eating-out paradise in the world, the city's own economic proaperity in the past 30 years has also played an important part. With patrons hecoming more and more demanding and competition growing keener and keener, caterers and restaurant operators simply have to keep pushing up their standard to survive in Hong Kong.

Nowadays, Hong Kong not only boasts of the rich varieties of Chinese food it houses—great cuisines of Guangdong, *Beijing, Sichuan and Shanghai*—but also the innovation it initiates within the great traditions.

The Versatility of Guangdong Cuisine

It is not surprising that Guangdong cuisine is the most developed branch of Chinese food in Hong Kong, given the geographical and historical links of tho city to this southern province of China and the fact that most of the Chinese residents in Hong Kong are of Guangdong origin.

The development of Guangdong cuisine has been a three-stage process. The Guangdong people, boro in a land blessed with fish and cereals are notable gourmets. In Guangdong cuisine, at its primary stage, emphasis was placed on native, delicate home cooking.

The second stage witnessed the influence of Beijing cuisine. The mandarins from Northern China brought along their own bouse-chefa when they took up office in the south and this new art of cooking soon became widespread. Meanwhile, the wealthy salt merchanta and tycoons of the 13 Hongs—agents of foreign traders in Guangzhou (Canton), also pushed the development of Guangdong cuisine to e new peak

Last came Westero influence, and Hong *Kong is* the *birth*place to this westernised generation of Guangdong cuisine. Western influence in Chinese dishes was always present in Hong *Kong but* the westernisation, like that in other facets of the city, is particularly acute in recent years. Lobster aalad, Chinese vegetables in Portuguese sauce, haked atuffed conch and the various Chineae dishes served sizzling are some typical examples of the creativity of Hong Kong chefs in presenting Chinese food in western culinary style.

Guangdong chefs are renowned for their ingenuity in incorporating all skills of cookery to produce local specialities. Illustrations of this can be found in the two "sub-hranches" of thia cuisine—the Chaozhou (Chiuchow) and Kejia (Hakka) foods.

Being a seaside county, Chaozhou (now known as Chao'an) is well-known for its traditional culinary art in seafood—fish, prawns, crabs, oysters and clams.

Chaozhou gourmets are rather particular about the sauces which accompany their meals, hence, spicy goose is dipped in garlic-vinegar, while fish goes with hroad bean paste and steamed lobsters with tangerine jam.

Kejia food has perhaps the stroogest native flavour and is also prohahly the cheapest among Guangdong cuisines in Hong Kong. Salt-roasted chicken, stuffed beancurd, fried beef-ball with vegetahles are some of the most popular dishes.

Beijing cuisine—legacy of the imperial tradition

The origin of this particular school of Chinese cuisine can be traced heck to as early as the Ming dynasty (1368-*1644*). It is the wonderful combination of the cooking atyles of the provinces of Shangdong, Hebei and Hensn further enriched hy menus *from* royal courts.

Everybody immediately thinks of the roest duck once the term Beijing cuisine is mentioned. Even with Beijing ducks, there are countless choices — duck-wings, duck-liver, duck-tongue, duck-web, eggs fried in duck-fat——prscticaily every part of a duck can be turned into a dainty dish.

To be really exact, there are more than 50 ways of cooking in the Beijing school. The most representative ones are, however, "explosive cooking" with water, corriander, bean paste or spring onion, saulee in wine or vinegar aauce, and fruits like apple and banaoa coated witb syrup to be dipped in ice water for crispness. Beijing dishes, wbether hors d'oeuvres, main dishes or desserts, are alwaya savoury, teoder and crisp.

Sichuan cuisine is famous for its refined and meticulous cooking styles and seasoning methods which result in dishes of practically all flavours—sour, sweet, salty, peppery, spicy and even bitter.

Almost every Sichuan dish tantalises. Fish-aroma dishes are real treals. The fish-aroma is a special sauce flavoured with vinegar, lees of wine, garlic, ginger, pepper, spring onion and broad bean paste.

Another outstanding Sichuan flavour is the queer taste, but don't be misled hy the queer name. There is nothing queer about dishes with this flavour. The sauce is a perfect blending of the five flavours—peppery chilli, salty, sweet and sour. The queer taste chicken is an especially famous dish best with liquor.

The many choices of Shanghai cuisine

Shanghai cuisine is another school which incorporates the strong points of others, mainly Hualyang, Anhui, Wuzi, Ningbo, Suzhou and Hangzhou.

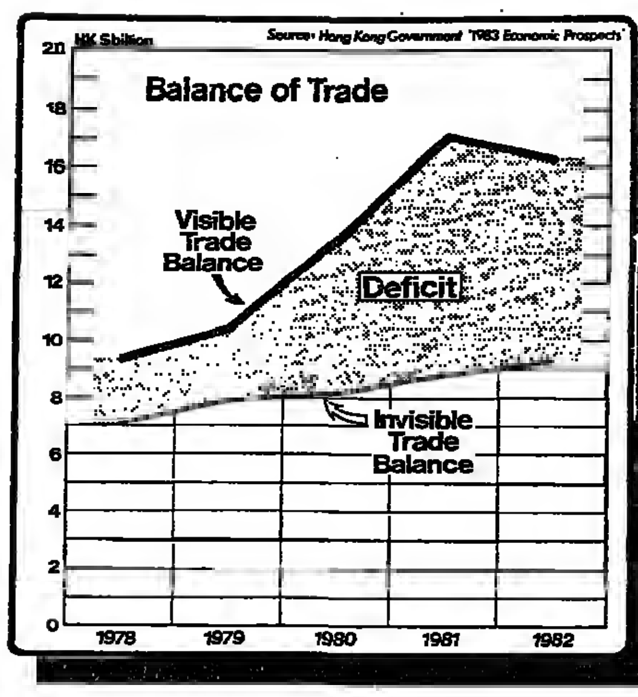
Native Shanghai food has never heen considered sophisticated enough to be served in elegant hanquets *as it is chiefly* associated with people from the lower social stratum. Renowned Shanghai dishes, however, originate from neighbouring provinces and districts. Take for example, the braised turtle in sweet brown sauce, the yellow fish in soup first came from Ningbo, sweet-and-sour pork chop, chop suey in chilli sauce originate from Wuxi, while beggar's chicken and quick-fried *shredded eel* are derived from Hangzhou and Chinese bam in honey sauce and winter bamboo shoots with shrimp eggs from Suzhou.

Shanghai food can therefore be broadly summarised as generally more greasy, sugary and strong, with stewing, frying and braising as its principal cooking techniques.

The author is an official of the Hong Kong Tourist Association.

An investment switch is helping the economy to leap out of recession says **Robert Cottrell**

Welcome shift to manufacturing sector



HONG KONG is demonstrating in 1983 its ability to leap aggressively out of recession. Sir John Bremridge, Financial Secretary, is faced with the pleasant prospect of being able this year to revise some of his forecaats upwards and may formally do so on September 16 when he presents his half-yearly economic review. The situation makes a particularly happy contrast with 1982, when Sir John's budget forecast of 8 per cent real GDP growth proved well wide of the actual out-turn of 2.4 per cent and a hoped-for budget surplus turned into a HK$3.5bn deficit.

Economists are guessing that Sir John's budget forecast of 4 per cent real GDP growth for 1983 will be outpaced by an actual out-turn of anywhere between 5 and 9 per cent. Particular encouragement can be drawn from export figures for the first six months of the current year.

Hong Kong lives by its exports—its total external trade comfortably exceeds Gross Domestic Product. First-half figures show that domestic exports grew by 9 per cent in real terms, against a budget forecast of 5 per cent for the full year and a 3 per cent decline in 1982.

Manufacturers who rated 1982 the toughest year of the past ten are now measuring in months the order books which last year they were measuring in weeks or even days. The typical Hong Kong industrial order book is now some four to five months long. Increased orders are showing through in employment figures, with the Colony's unemployment rate falling from a first quarter 5.1 per cent to a second quarter 4.4 per cent.

Industrialists are also welcoming an investment shift out of the overheated property sector and into manufacturing. The collapse of the property market has seen industrial land prices and rents drop dramatically, cutting factory overheads. Some industrial sites in less favoured areas have lost as much as 90 per cent of their late-1881 peak market valuation. Service industries and professional firms have found office rent dropping by one-third to one-half over the past 18 months.

Simultaneously, equity investors disenchanted with property market *hunting have* reopened the stock market to industrial firms. In recent weeks a fanmaker, a steel trader and an electronics firm have gone public and merchant banks are nurturing more candidates.

The property cycle has proved a less happy experience for the balance-sheet of the Hong Kong Government, which has seen capital reveoues fluctuate widely and unpredictably. The Government is effectively the freeholder of all land in Hong Kong and sells leasehold interests to supplement its revenue. The presence of this land-based income is one reason why Hong Kong can afford a regime of low direct taxes on income and corporate profits rates of fifteen and 16.5 per cent respectively.

Swollen revenues

Swolleo land revenues, though officially regarded as "windfall" tocome, none the less helped support a rise in government expenditure from HK$11bn lo 1978-79 to HK$35bn in 1982-83, years which marked the beginning and the end of the property boom. With land revenues now shrunk to a trickle, Sir John Bremridge must rely on more traditional means of keeping the public accounts in balance.

The current year's budget included a HK$3bn package of indirect taxes, provoking from drinkers and smokers the groans frequently heard on British Budget days. Hong Kong has also shelved plans for a HK$ 40bn replacement international airport on the grounds that it canoot be afforded. Moreover, Sir John is, for this year at least, prepared to run a deficit and draw down on fiscal reserves. The reserves, be says, are for a rainy day, "and it's raining now."

It seems unlikely that Sir John could look with so sanguine an eye upon annther poteotial deficit in the next financial year, to be covered from reserves. The prospect of governmeot borrowing has already been debated by local economic analysts, several of whom believe borrowing is inevitable aod that the Government should have gone to the chedit markets earlier rather than later.

Sir John acknowledged in bis February budget speech this year that it was "open to question" whether the Government could accommodate a radical diminution in land revenues without horrowing. He also, however, expressed a hope which the improved economic climate of the current year shows some signs of starting to realise—a hope for a world trading climate improving to the substaotial benefit of Hong Kong's private sector and permitting the Government to retreat to more conservative budgetary policies.

Tha most pervasive short-term economic worry for Hong Kong today is the vulnerability of its currency to violent fluctuations associated with ahifts in sentiment towards the "1897" issue of Hong Kong's political future. While a comparison solely with the U.S. dollar is distorted by the latter's worldwide strength, it is indicative to note that whereas at year-eod 1981 the Hong Kong dollar traded at HK$5.675 to the U.S. dollar, it now trades around $7.50.

The situation is a nightmare for firms trying to trade competitively while pricing in Hong Kong dollars. A natural reaction might ba to abun the Hong Kong dollar in favour of U.S. dollar pricing—a syndrome signalling further weakness for the Hong Kong dollar.

For the quasi-official cartel of banks which fixes interest rates the question is a delicate one: raise interest rates to protect the currency but risk damaging economic recovery; or hold interest rates down and see a weak Hong Kong dollar translated into domestic inflation? So far the banks have been inclined to promote recovery at the expense of very low real interest rates, probably taking the view that monetary weapons are not appropriate for tackling what is essentially a political problem.

A further worry is the extent to which political considerations bave triggered an outflow of funds from Hong Kong to safer havens, while dissuading new capital investment from abroad. Comprebensive statistics are not available but anecdotal evidence coupled with local statistical trends suggest the following picture.

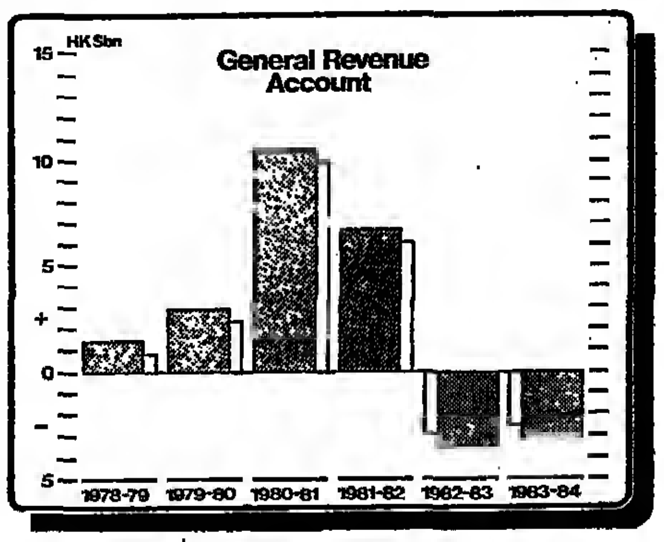
A surge of "flight capital" has not been seen, partly because Hong Kong's rich have always kept substantial portions nf their funds offshore. It is not an idea which has occurred to them only in the last 18 months. For money kept in Hong Kong, meanwhile, foreign currency accounts—usually U.S. dollars—are increasingly favoured over Hong Kong dollar accounts.

Where local firms are expanding this year they are taking np the slack of capacity left idle last year. If still further expansion is desirable, new premises may be leased rather than bought outright. Foreign investment intn Hong Kong industry was stagnant last year but represents in any case a small fraction of domestic investment.

GROWTH RATES IN REAL TERMS OF COMPONENTS OF EXPENDITURE ON GDP
(per cent)

	1873	1974	1975	1976	1877	1978	1979	1880	(*)1981	(†)1982	Average growth 1973-82 1982	1978-82 1982
Private Consumption Expenditure	18.4	−1.1	2.0	8.8	17.3	17.5	8.5	13.8	12.2	1.7	8.7	10.8
Government Consumption Expenditure	12.0	10.1	5.1	8.1	12.5	12.8	10.6	7.7	25.4	7.7	11.1	12.7
Gross Domestic Fixed Capital Capital Formation	15.9	−3.1	1.4	16.8	26.1	16.6	18.5	17.5	13.1	−0.2	8.9	12.9
Transfer costs of land and buildings	37.6	−37.0	9.6	35.6	28.7	53.5	20.6	64.4	71.3	−16.1	21.9	8.4
Building and construction	8.3	11.6	6.3	14.2	33.7	8.8	4.5	11.7	5.7	10.5	11.4	8.4
Private	−0.8	1.2	4.1	13.4	27.8	−2.6	9.6	23.5	4.8	−1.0	7.6	6.5
Public	31.9	32.1	−7.4	−12.1	41.9	25.5	−0.6	−1.1	6.8	25.8	17.9	10.6
Government	31.9	32.1	−7.4	−12.1	12.5	48.1	11.8	10.8	23.2	17.0	15.5	21.5
MTRC	n/a	n/a	n/a	165.3	95.1	2.1	−18.2	−26.1	−44.5	85.7	n/a	−8.8
Plant, machinery and equipment	21.4	−12.7	−3.8	18.7	17.8	22.5	33.6	18.1	13.5	−5.9	11.5	15.3
Private	20.5	−13.2	−3.0	19.5	17.6	20.2	31.5	20.4	11.9	−6.2	11.0	14.8
Public	52.5	7.5	−33.0	−14.9	28.1	153.4	90.3	−3.7	51.0	−1.4	23.5	47.2
Total Exports of Goods	12.3	−6.3	3.2	28.0	5.1	13.8	18.5	17.7	13.0	−1.7	10.0	12.2
Domestic exports	7.3	−2.8	3.2	29.5	4.8	10.4	16.5	10.9	8.0	−2.7	8.2	8.4
Re-exports	30.4	−16.7	3.4	23.1	6.0	25.8	29.0	37.3	24.6	0.3	15.1	22.7
Imports of Goods	10.7	−10.3	3.8	24.8	7.9	21.5	15.9	18.6	11.7	−3.7	9.7	12.7
Exports less imports of Services	−6.2	−14.8	1.3	32.2	−8.2	8.4	−3.8	−6.7	−3.9	0.4	−0.8	−1.2
Gross Domestic Product	15.8	1.8	2.2	18.8	10.2	10.3	12.8	11.7	16.9	2.4	9.6	8.5
Per Capita GDP	13.1	−0.7	0.5	17.5	8.6	8.2	6.2	8.1	8.4	0.3	7.0	6.3
Real Income	14.9	−2.5	3.4	22.7	9.2	9.5	13.0	11.8	8.9	2.5	8.3	9.3
Per Capita Real Income	12.3	−4.9	1.6	21.3	7.6	7.4	6.5	8.3	7.4	0.9	6.7	6.1
Total Final Demand	13.4	−3.8	2.9	21.4	9.2	15.2	14.2	15.0	11.3	−0.1	8.6	11.0
Total Final Demand excluding Re-exports	11.7	−2.3	2.8	21.2	8.5	14.2	12.6	12.2	9.3	−0.2	8.9	8.5
Retained Imports	6.0	−8.4	3.8	25.2	8.5	20.4	12.5	13.0	7.6	−4.0	8.0	9.5
Domestic Demand	17.5	−0.3	2.8	15.2	14.8	17.0	12.0	14.5	10.8	1.2	10.4	11.0
Private	17.4	−2.1	2.5	15.8	13.7	16.6	12.5	16.0	10.0	−0.3	10.0	10.8
Public	18.8	17.2	5.6	10.4	24.3	20.6	7.8	3.2	18.0	13.8	13.9	12.7
GDP Deflator	12.9	12.2	2.3	7.8	4.1	5.7	14.1	13.1	9.6	11.8	9.3	10.8
Consumer Price Index	18.2	14.4	1.2	3.4	5.8	5.9	11.6	15.5	15.4	10.6	10.1	10.1

Notes:
(*) Based on provisional estimates. (†) Based on preliminary estimates. n/a Not applicable.



China's child but a different image

CONTINUED FROM PAGE ONE

people value most deeply are not racial or territorial but affinities with liberal social and economic values, with free-market capitalism and personal freedom. British officials are not primarily concerned with asserting territorial rights over Hong Kong but with guaranteeing for the future the institutions and values wbich have sustained Hong Kong in its 141 years as a British colony.

It seems apparent that British and Chinese aspirations towards Hong Kong are based on *different* interpretations of what Hong Kong people want or are prepared to tolerate. It also seems that China would press for the reunification of Hong Kong with the motherland even if it were apparent that significant elements of the Hong Kong people opposed such a scheme—on the grounds that reunification is not an issue to be decided by Hong Kong people alone but by China as a whole. Against such a political background it is scarcely aurpriaing that progress towards a negotiated Sino-British settlement of Hong Kong's future should be slow and the prospects of achieving one far from clear.

Talks which took place between British and Chinese delegations on the future of Hong Kong in Peking during July and August are currently in recess and scheduled to restart on September 22 next. They represent the long-waited fruit of Prime Minister Mrs Margaret Thatcher'a visit to Peking in September last year, when she agreed with Chinese leadera Deng Xiaoping and Zhao Zhiyang that the long-quiescent problem was in need of a speedy formal resolution.

A commitment was issued at that time pledging Britain and China to preserve Hong Kong'a "stability and prosperity." Nine months of nervous waiting followed aa the two countries manoeuvred their negotiating stances ioto sufficient alignment to draw up an agenda and announce a start to formal talks. Those talks may still be stuck at item one on the agenda—but at least they have begun.

Cbina is telling Britain that sovereignty over the whole of Hong Kong is rightfully China's, that China will discharge as a function of sovereignty the right to choose an Administration, that sucb administration should be self-rule under the Chinese flag and that Britain'a only duty towards Hong Kong is to assist wbere necessary in maintaining Hong Kong's atability and prosperity while Britisb authority is dismantled.

Britain is telling China that the best, perhaps the only, way of guaranteeing Hong Kong's stability and prosperity la by retaining into the indefinite future a British-linked adminiatration and is indicating that perhaps a compromise could be reacbed which combines acknowledged Chinese sovereignty over Hong Kong with Britisb administrative linkage aufficient to act as a "buffer" between Hong Kong'a capitalist and China's socialist systems.

The "buffer" concept is held by the Britisb-Hong Kong negotiating axis to be Hong Kong'a gusrantee against a future erosion or engulfing of its proposed capitalist autonomy. Without a continuing British linkage Hong Kong would be wholly exposed to shifts in Peking's political winds—shifts which have occurred frequently and dramatically in the past 80 years.

Freewheeling

Britain is also trying to persuade China's leaders that they do not understand Hong Kong, that they could not oversee its freewbeeling capitaliat prosperity and that the social and economic damage which migbt result would have its effect not just on Hong Kong but on Cbina too. The British doubts are soundly based. While China is now beginning to liberalise and upgrade its economy, a gulf of sophisticatlon aod expertise remains between China and Hong Kong so vast that Chinese expectations of closing it in the next two decades seem grossly optimistic.

While the British arguments have intellectual appeal, the Chinese argument has an emotional one which China has not been slow to exploit. In a "hearts-and-minds" campaign China has popularised its plans for Hong Kong through speeches from second-line officials, leaks to sympathetic newspapers and atage-managed contacts with non-governmental Hong Kong organisations. It bas sought to present the resumption of Chinese power over Hong Kong as a *fait accompli*, undermining the perceived authnrity of the British and *seeking* to fire nationalistic sentiment among Hong Kong Chinese who are being invited to oust the alien and take control of their own affairs.

The conflicting claims being made on Hong Kong's loyalty have thrust the territory into a crisia of confidence and of identity—precipitating a period of intense introspection which if Hong Kong does succeed in maintaining its long-term stability and prosperity may prove to have been an important period of social maturation.

At a policy-making level the Governor's Executive Council has found *itself with* unprecedented authority and responsibility in shaping Britain's negotiating position on Hong Kong. Upon the "unofficial"—non-governmental members—of the Executive Council devolves the job of saying what type of future will or will not be acceptable to the people of Hong Kong. It is the sort of experience which makes politicians out of advisers.

For Hong Kong's business and financial community the political ferment has helped trigger a property boom-and-bust which has bonkrupted several large companies, *crippled* the *stock* market, and came dangerously close to precipitating a secondary banking crisis. The aftermath bas left financiers with an enhanced respect for industrial investment as a sourca of regular and recurrent earnings.

Hong Kong'a plutocrats, society's traditional folk-heroes, have auffered—and not just from money lost in the property crash. Some have ducked Hong Kong's hour of political need by going ailently to ground. Others have wasted nn time in buttering up the Peking men who may be tomorrow's government. Moreover, as the plutocrats are increasingly seen to be isolated and self-serving, so has Hong Kong acquired a new respect for its indigenous professional class, the people who bave invested their careers in Hong Kong's prosperity and on whose skills and sophistication the territory's future depends far more than it does on property magnates able to turn a million-dollar profit by driving up residential and nffice rents to unreal levels.

Identity

Most pervasively, Hong Kong has acquired a sense of its own identity as something quite distinct from its British administrators or its mainland Chinese compatrints. Hong Kong may not know quite what that identity is but it does know that it would be a great deal bappier left to get on with its work without being bounced around as a function of twn other countries' negotiating positions.

Hand in hand with that realisation goes a diminution of respect for British authority, which ia being tried and found wanting when weighed against China's. There is little anger against the British because few Hong Kong people could have expected any other result. The Governor nf the hour is Sir Edward Youde, liked and respected within bis administration but in public terms a slight, formal man who keeps his distance.

It may be that in the years to come a visitor will stand on Hong Kong's Victoria Peak, look down on the glittering skyscrapers of the central business district and see in them the high watermark of a wave of profiteering capitalism wbich swept by historical accident througb this amall quarter of Asia and, haviog reacbed thus far, receded. Imagine such a prospect in Paria or Los Angeles. In Hong Kong it is happening.